

FARM PROGRAM POLICIES AND PAYMENTS FOR 2022

TRI-STATE AGRICULTURAL LENDERS SEMINAR

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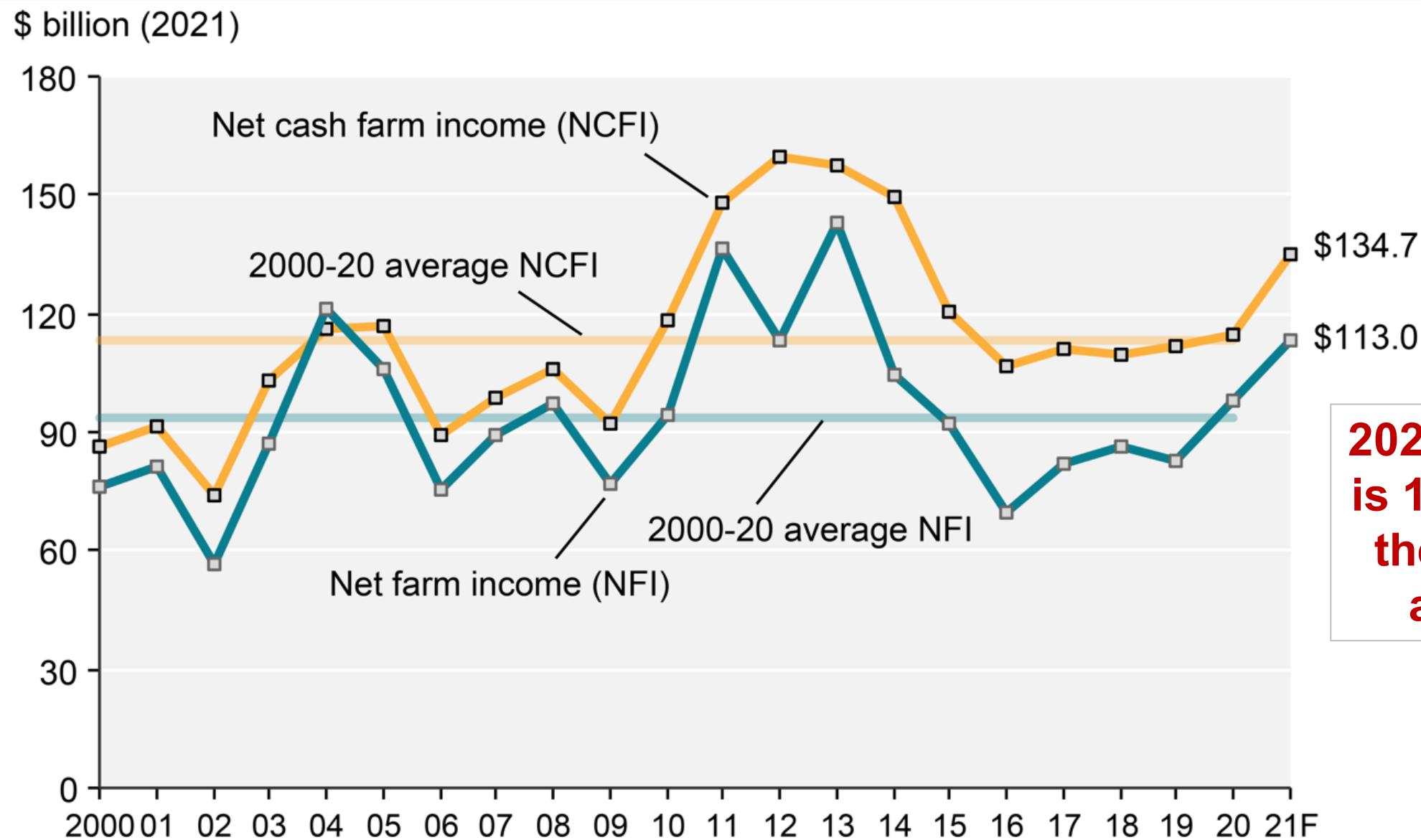


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Overview

- Put recent government payments into context
- What are farmers doing with this extra cash?
- ARC and PLC sign-up recommendations for 2022

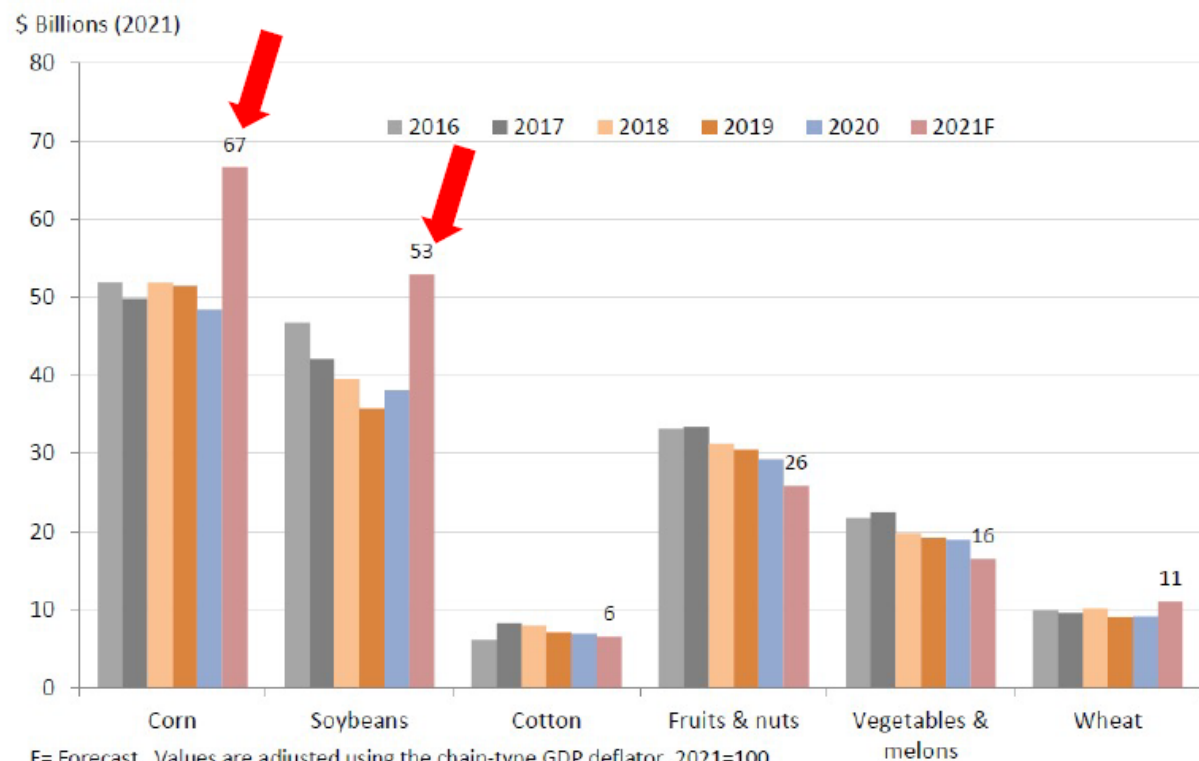
U.S. net farm income and net cash farm income, 2000–21F



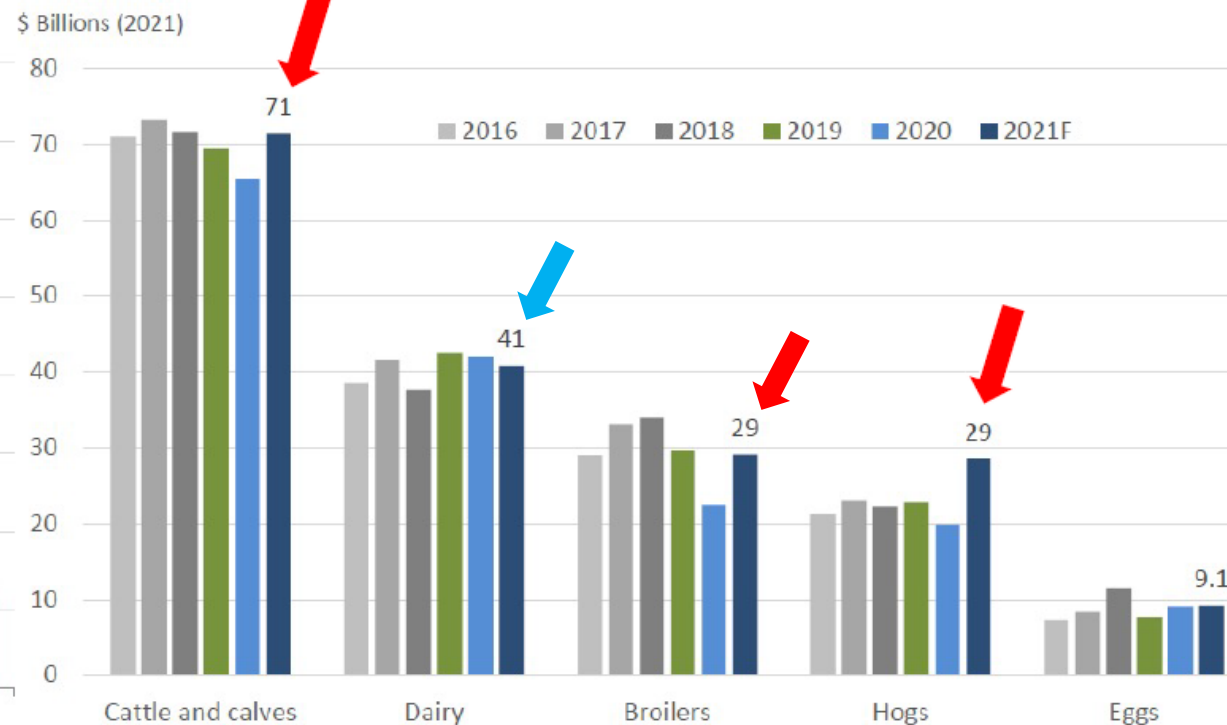
Source: USDA
ERS Sep 2, 2021

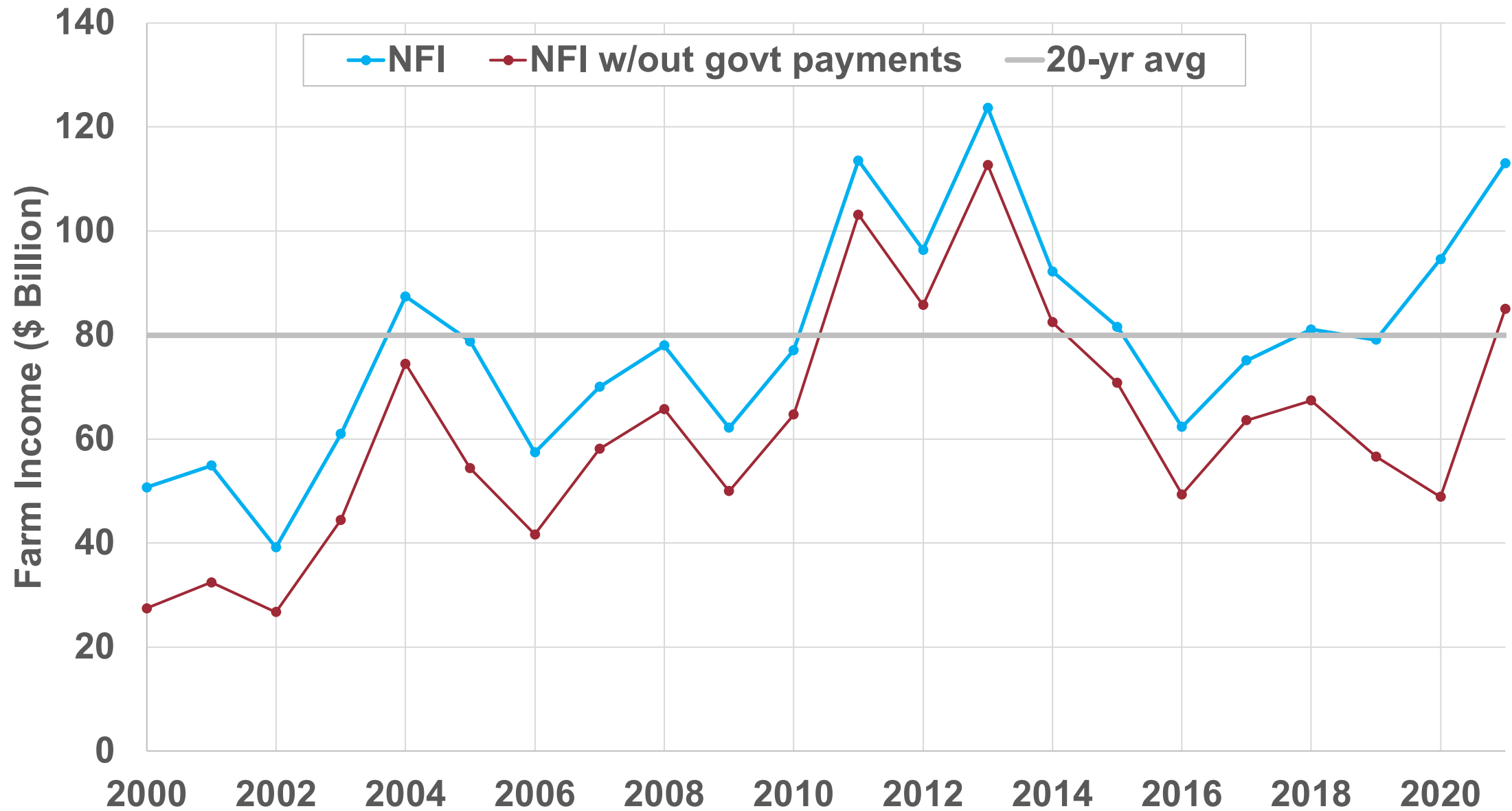
Corn, soybeans, cattle and hogs push receipts higher

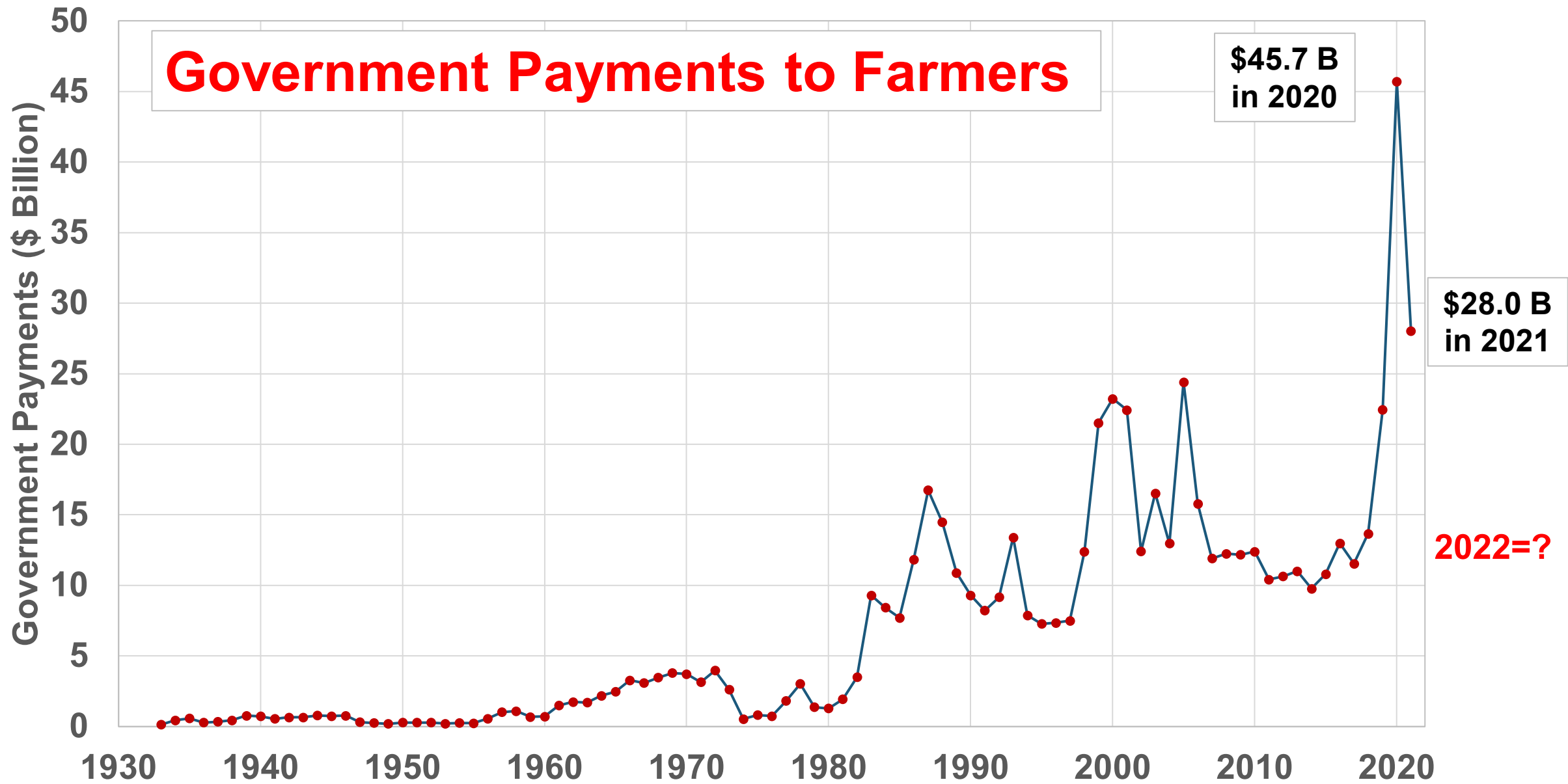
crop cash receipts



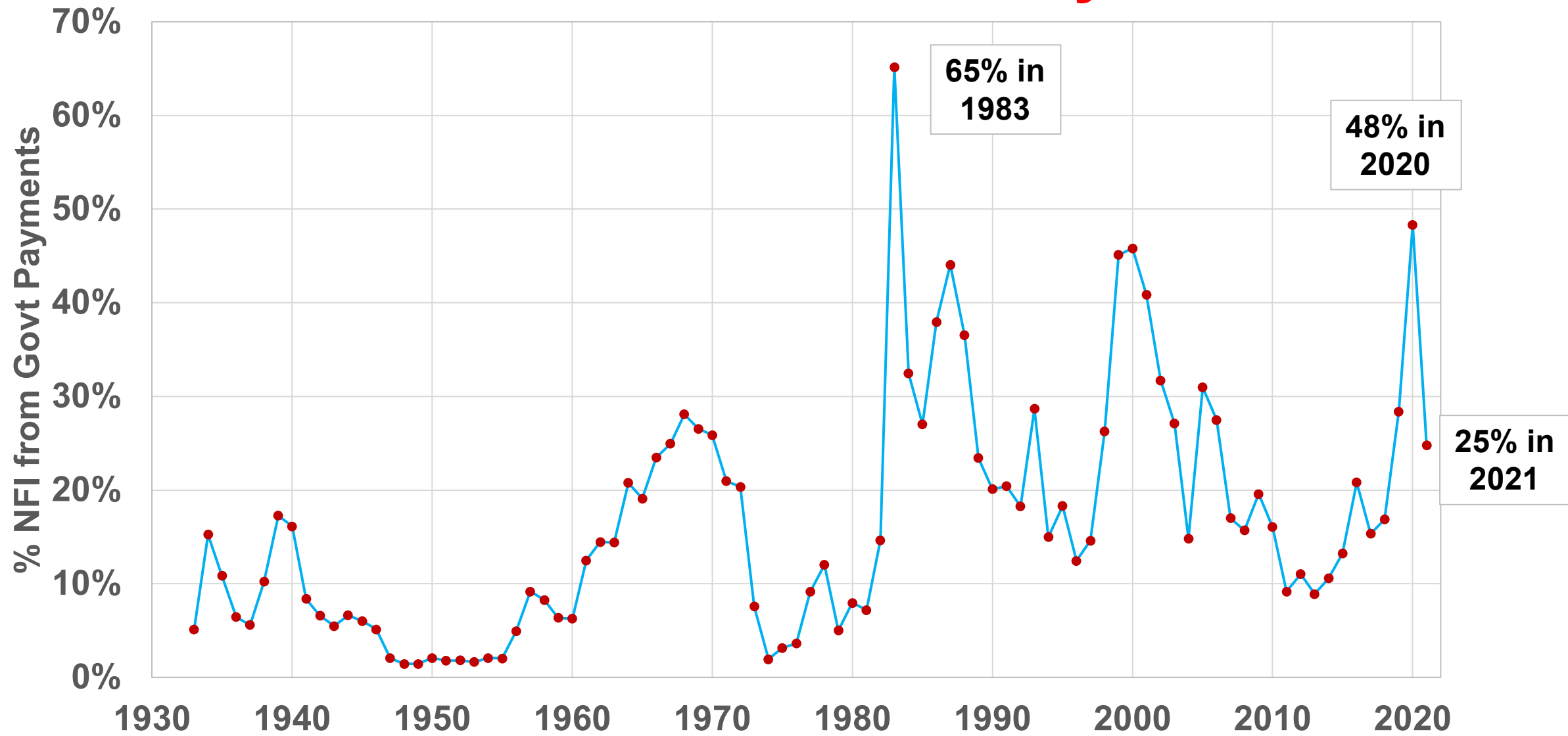
livestock and dairy cash receipts

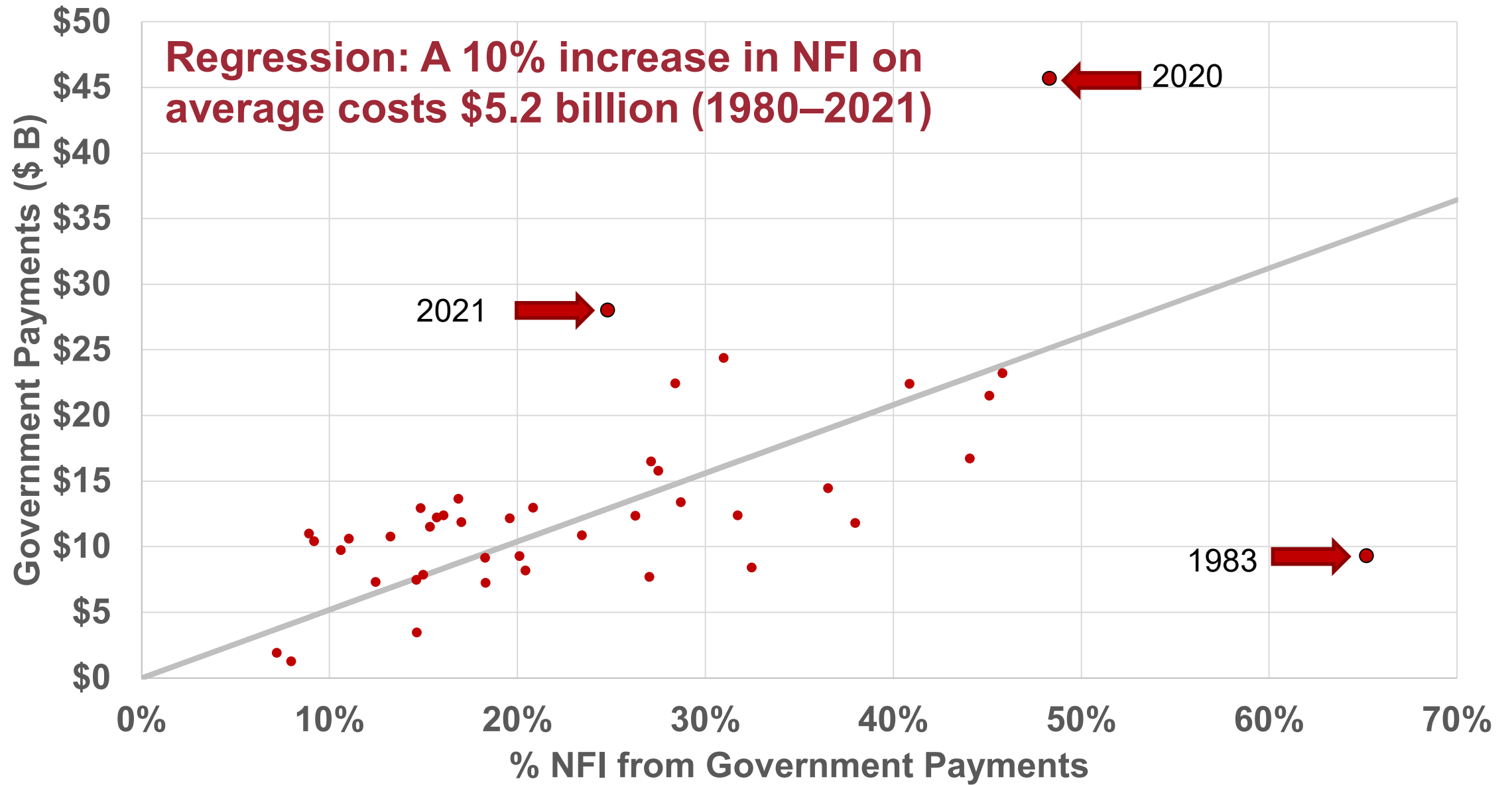






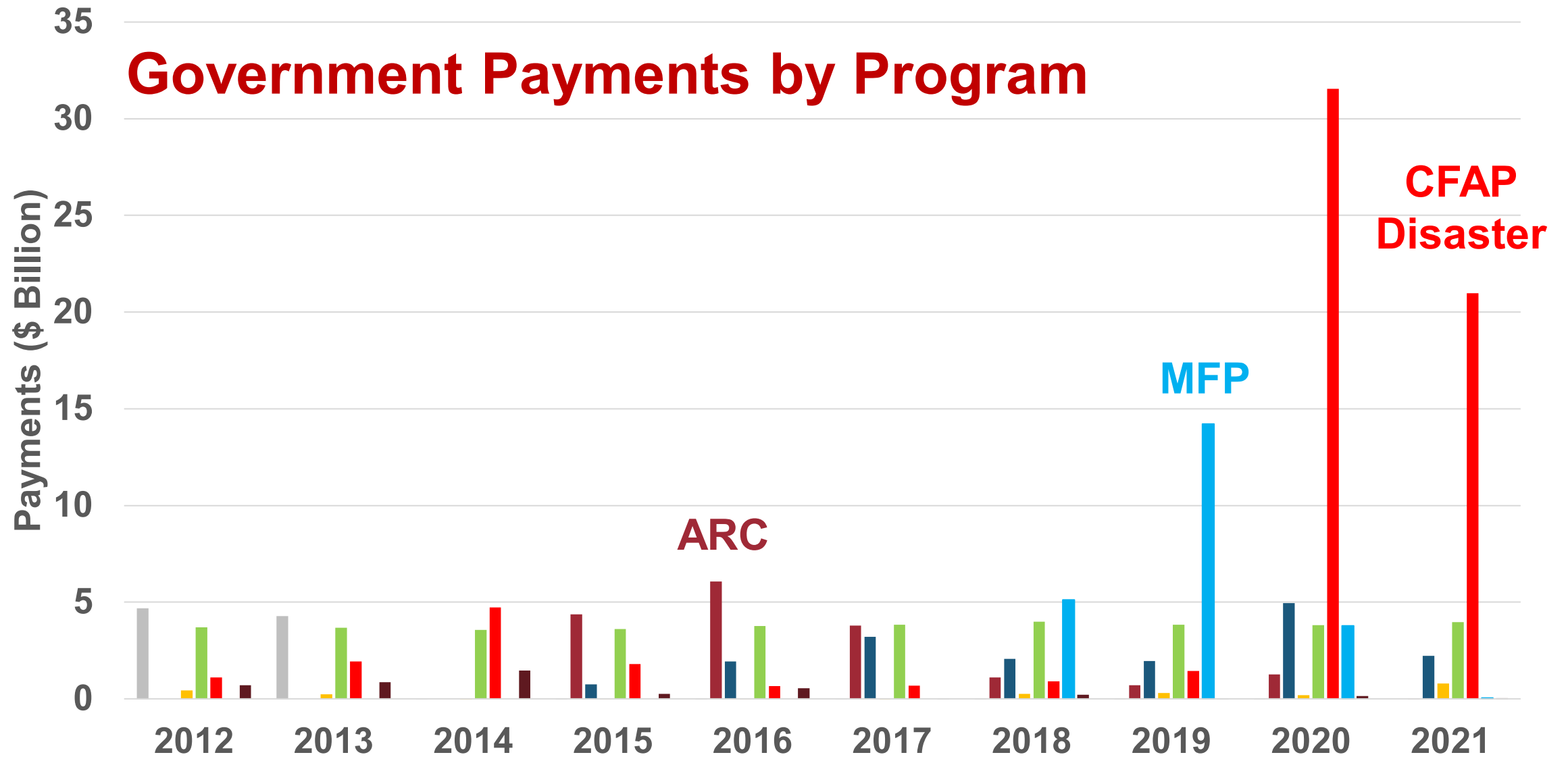
% NFI from Government Payments

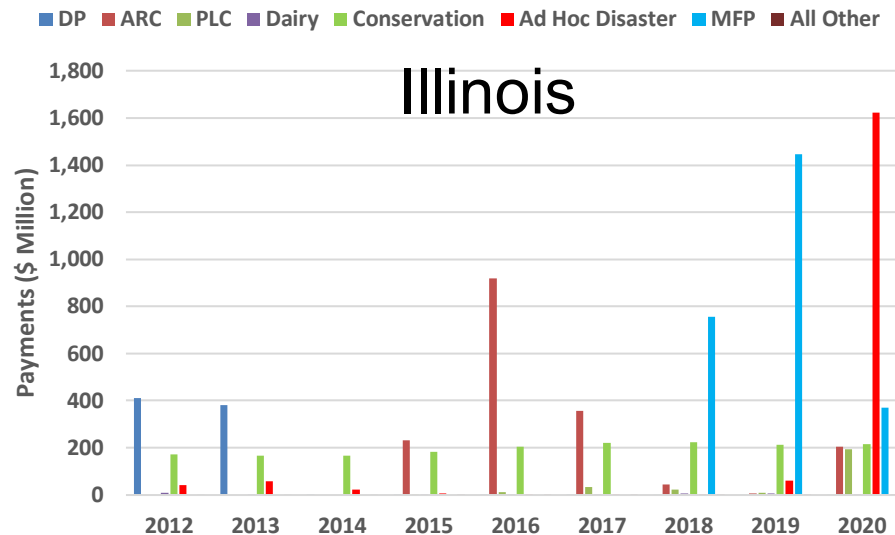
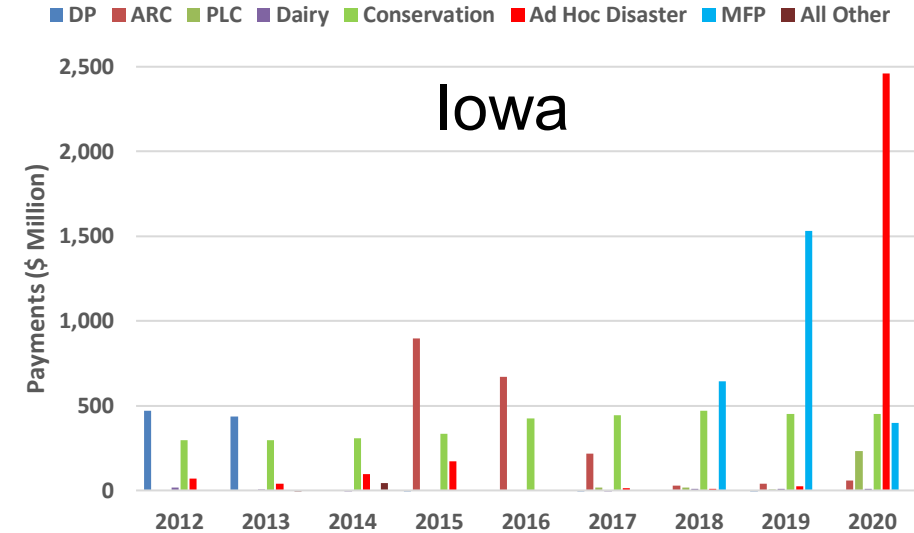
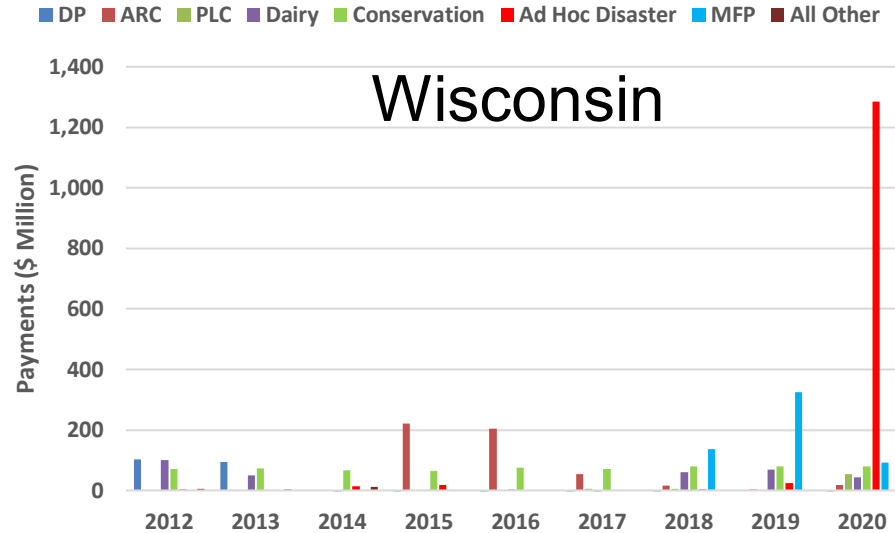




■ DP ■ ARC ■ PLC ■ Dairy ■ Conservation ■ Ad Hoc Disaster ■ MFP ■ All Other

Government Payments by Program



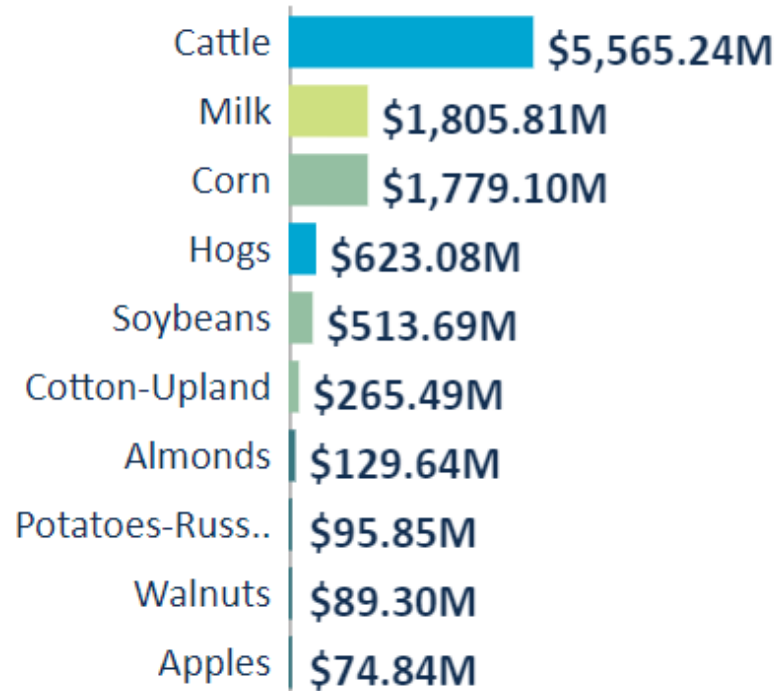


- See how large CFAP payments were in 2020 compared to previous spending
- MFP would have been remembered for large payments, but pandemic came along
- See ARC's large and variable payments
 - Iowa in 2015
 - Illinois in 2016
 - Wisconsin moderate in both years

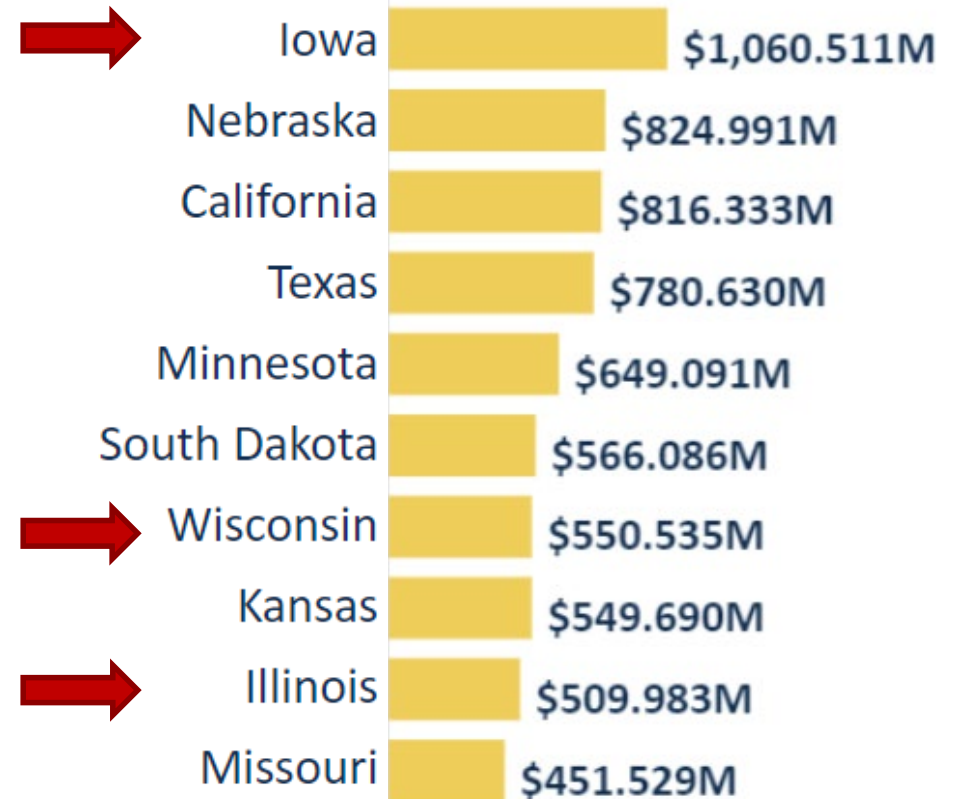
TOTAL CFAP 1 PAYMENTS

\$11,792,239,800

PAYMENTS BY COMMODITY



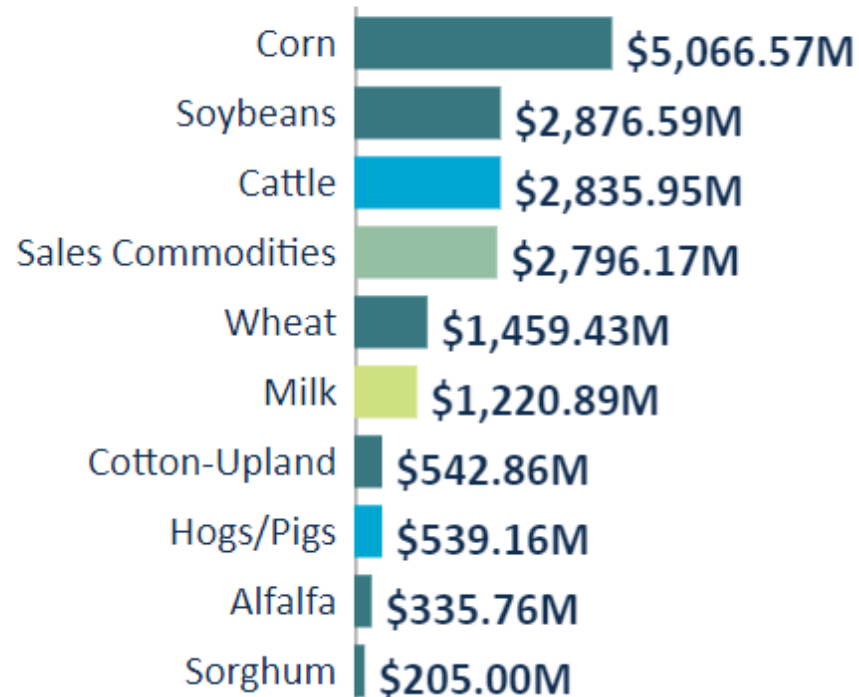
Grand Total



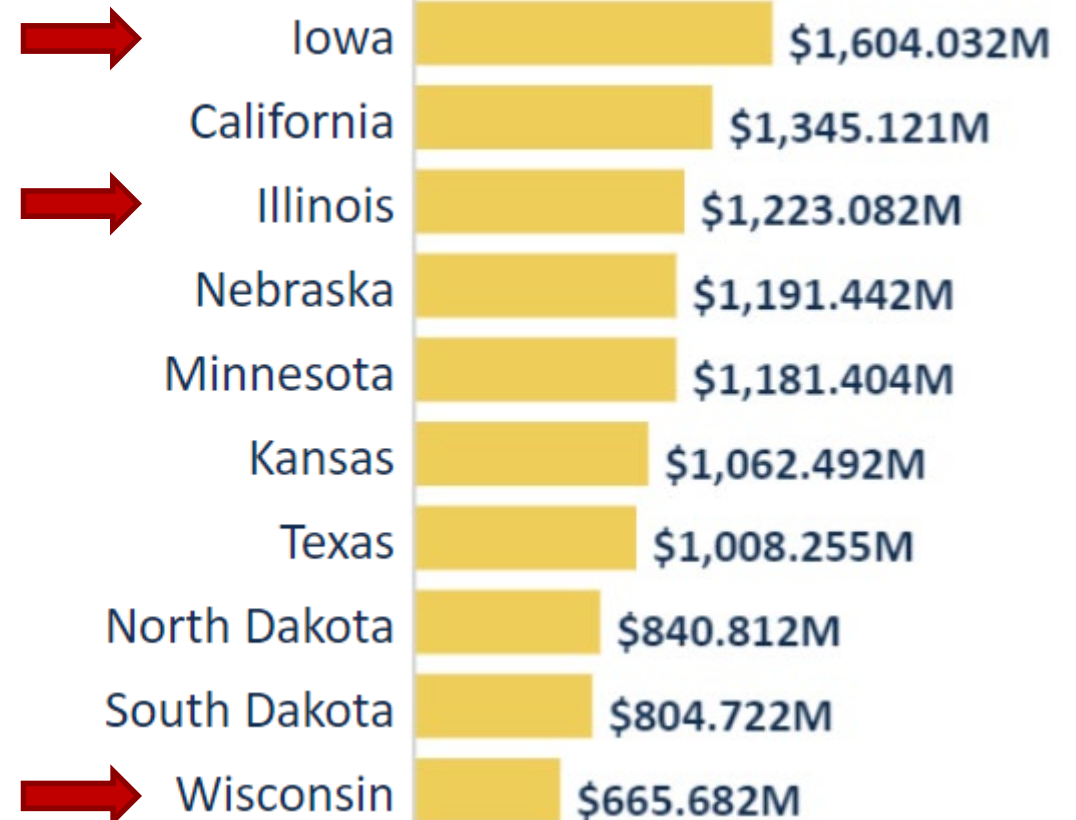
TOTAL CFAP 2 PAYMENTS

\$18,769,217,778

PAYMENTS BY COMMODITY



Grand Total



Coronavirus crisis puts hog farmers in uncharted territory: Killing their healthy livestock

"It's an absolute last resort that is probably the hardest decision farmers will make in their farming careers," the head of a pork producers association said of euthanizing herds.

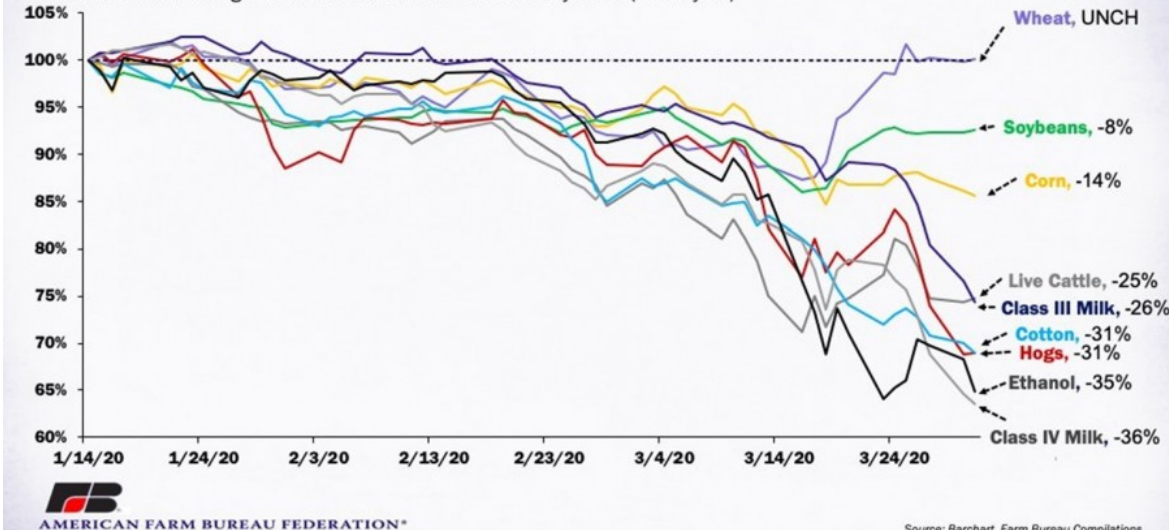


Remember?



Impact of COVID-19 on U.S. Commodity Futures Prices

Cumulative Percent Change in Price Since Outbreak Confirmed By China (January 14)



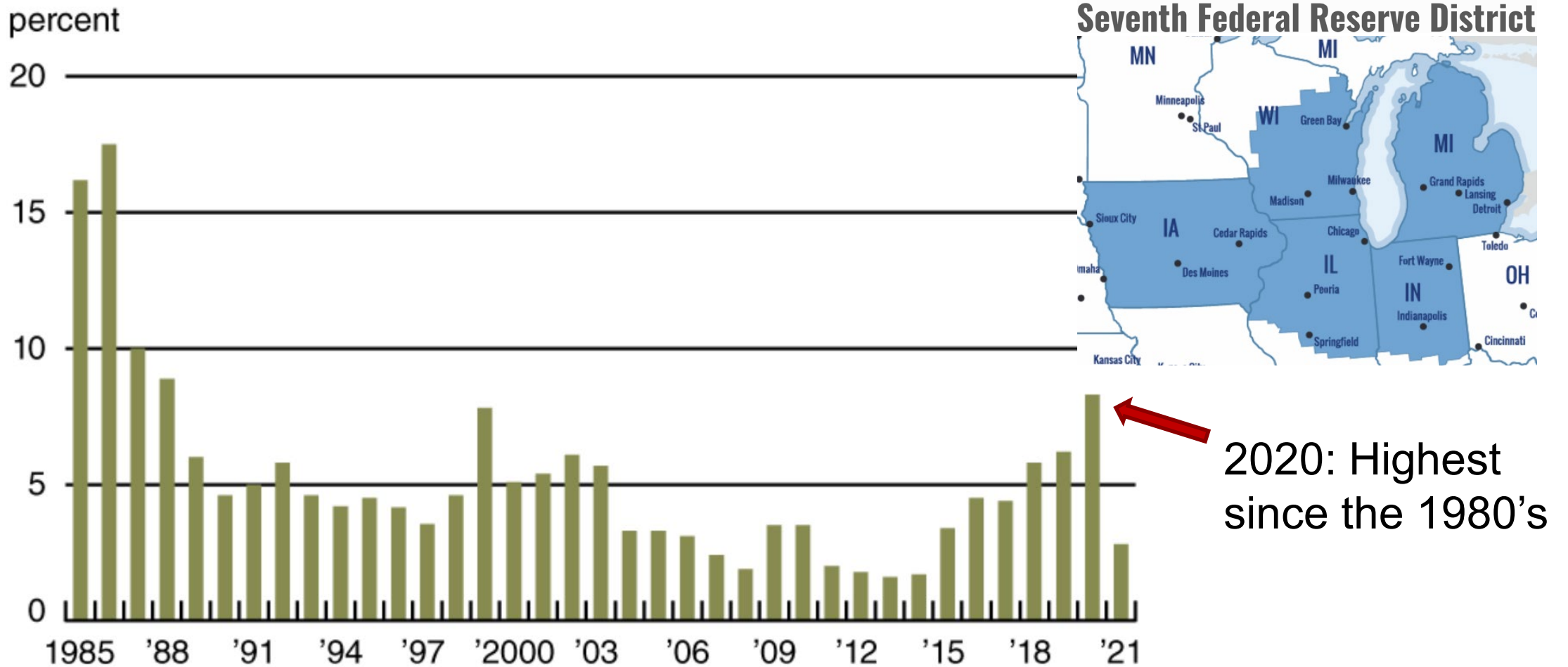
Main Point: High Farm Income for 2021

- High prices for corn, soybean, beef, hogs and broilers in 2021
- Unprecedented government payments to farmers in last few years
 - MFP in 2018, 2019, 2020
 - CFAP 1 & 2 in 2020 and 2021
 - Signup for CFAP2 ended Oct 12, 2021
- 2021 Farm Income almost 19% above the 20-year average
- **What are farmers doing with all this extra money?**

Paying Down Their Debt

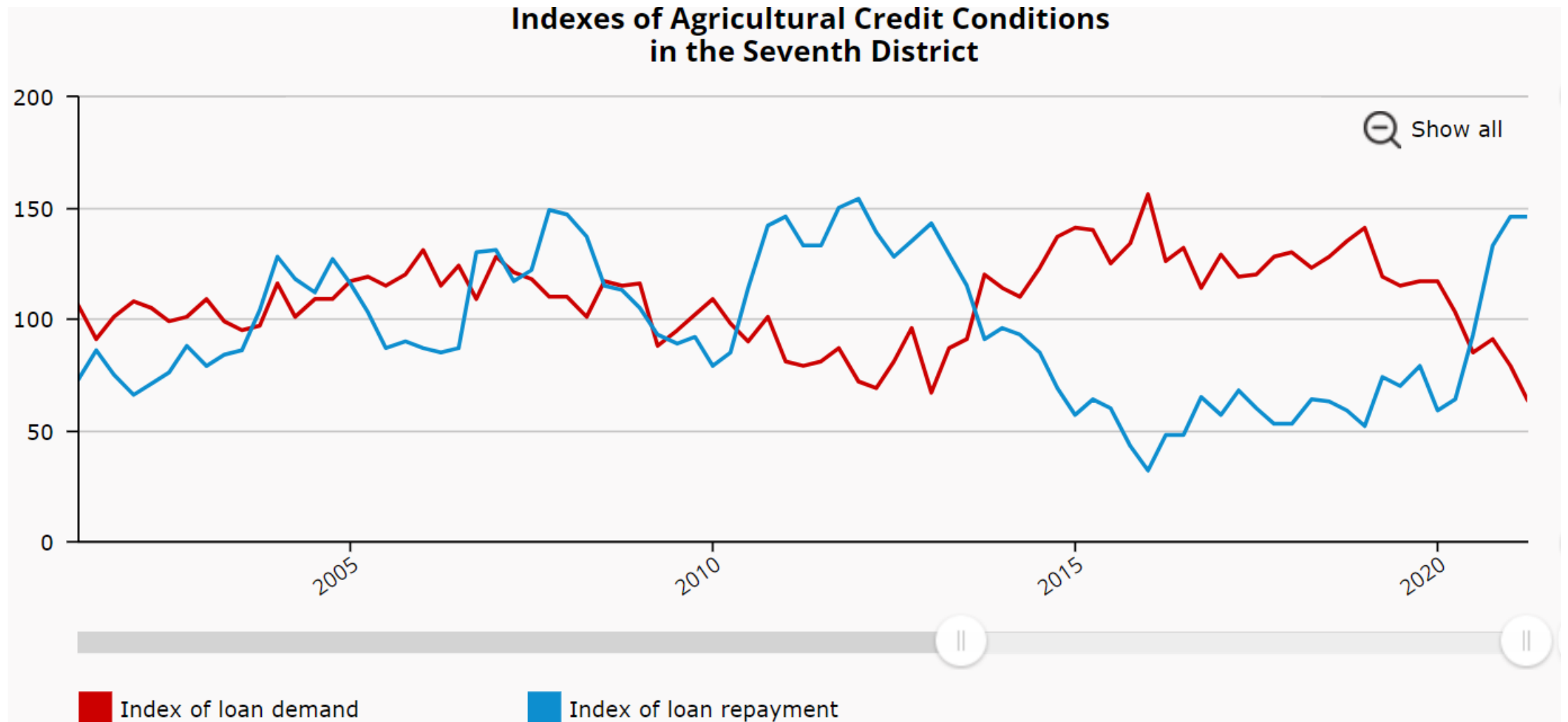
(Dave Oppendahl, Chicago Fed, AgLetter: Aug 2021)

Percentage of Seventh District farm loan portfolio with “major” or “severe” repayment problems



Source: <https://www.chicagofed.org/publications/agletter/2020-2024/august-2021>

Loan Demand is Down, Loan Repayment is Up

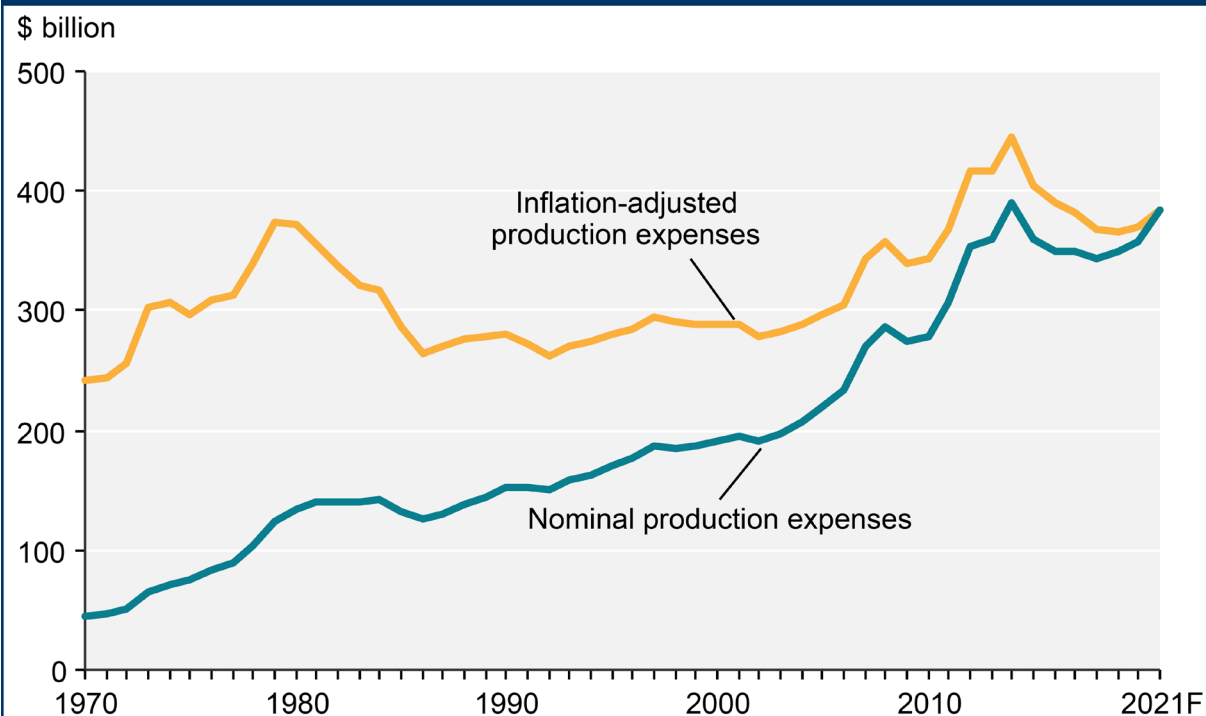


Source: Chicago Fed: <https://www.chicagofed.org/research/data/ag-conditions/index>

Paying More for Inputs

2021 Farm Sector Expenses up 7.3% from 2020 (Sep 2, 2021)

Nominal and inflation-adjusted U.S. farm production expenses, 1970–2021F

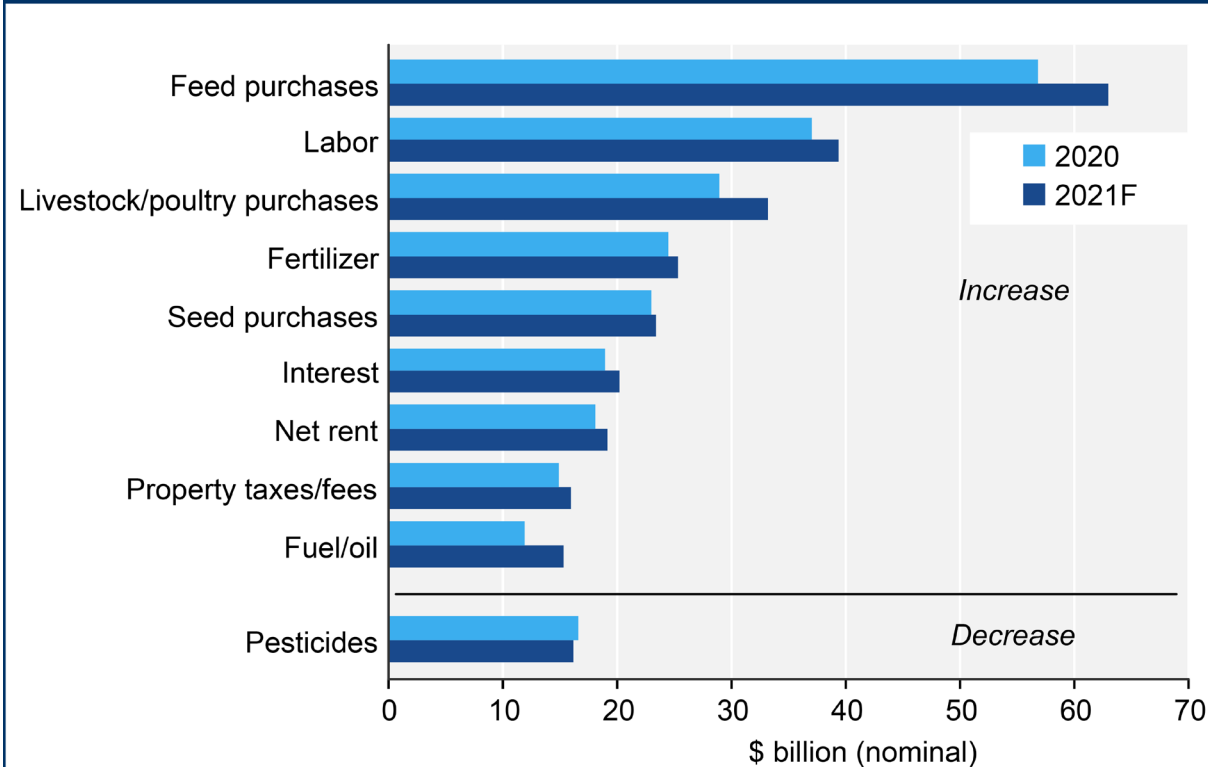


Note: Values are adjusted for inflation using the Gross Domestic Product chain-type price index, 2021=100.

Source: USDA, Economic Research Service, Farm Income and Wealth Statistics.

Data as of September 2, 2021.

Selected U.S. farm production expenses, 2020–21F



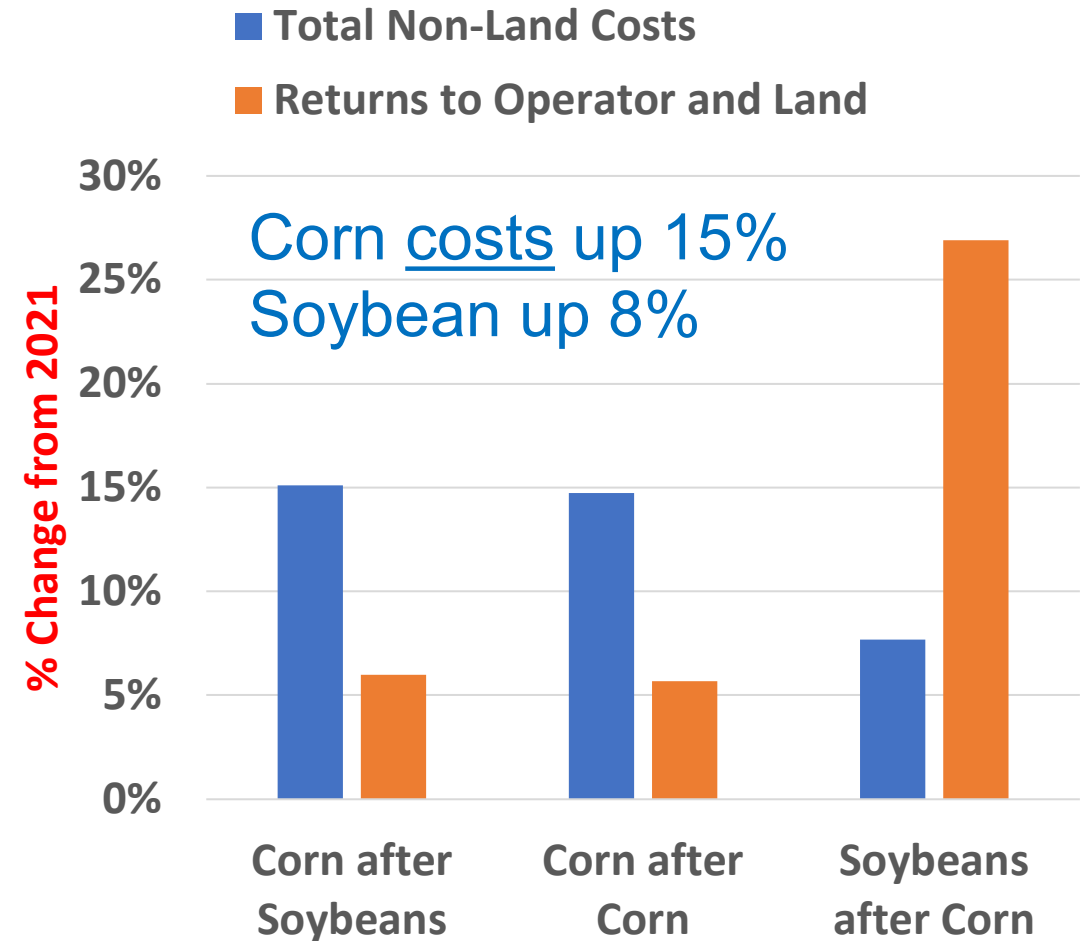
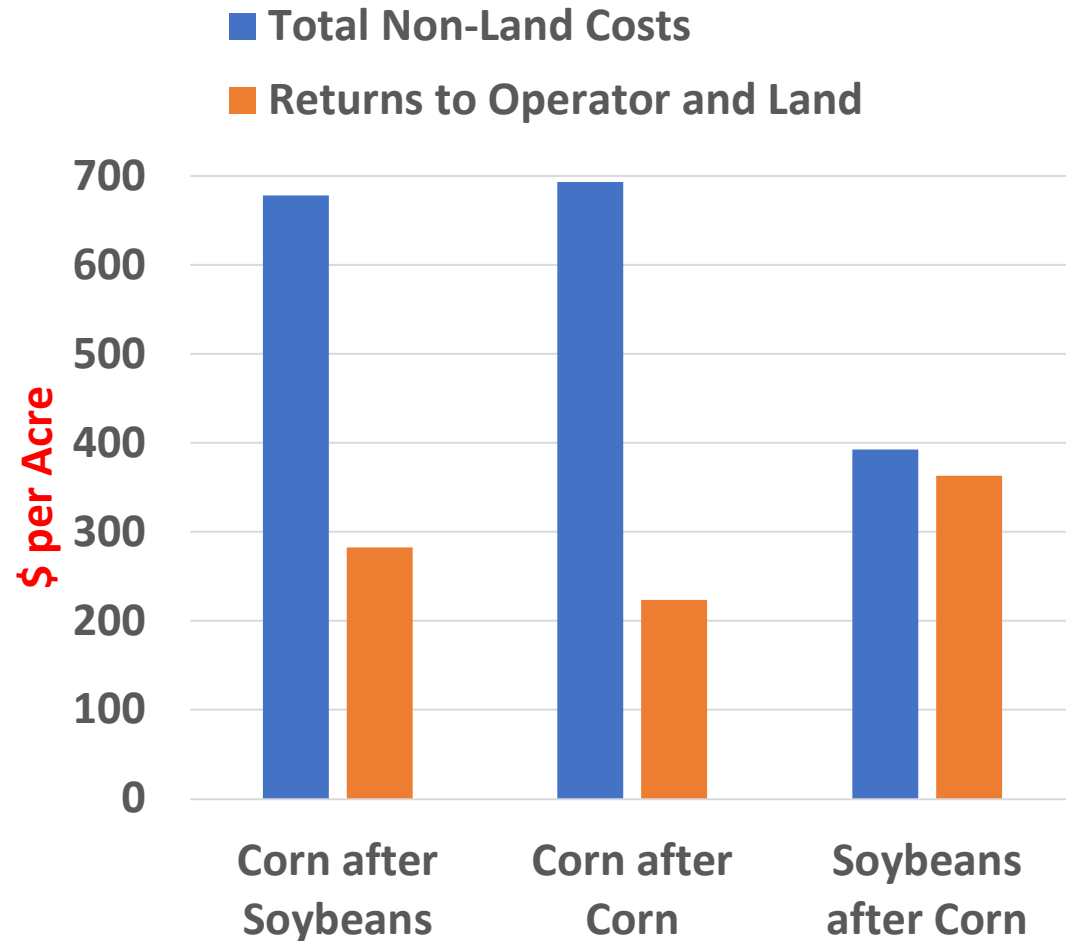
Note: F = forecast.

Source: USDA, Economic Research Service, Farm Income and Wealth Statistics.

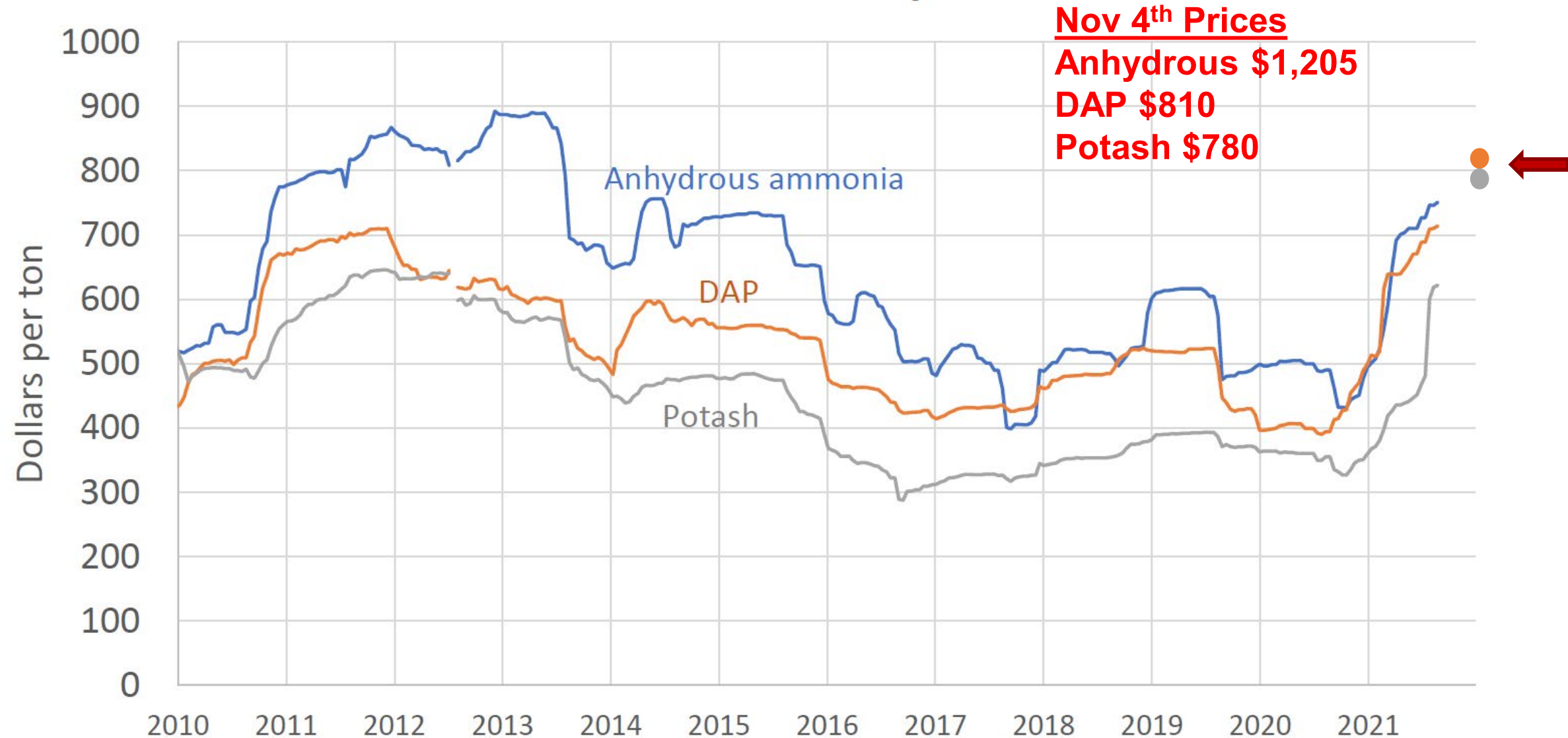
Data as of September 2, 2021.

Source: <https://www.ers.usda.gov/topics/farm-economy/farm-sector-income-finances/farm-sector-income-forecast/>

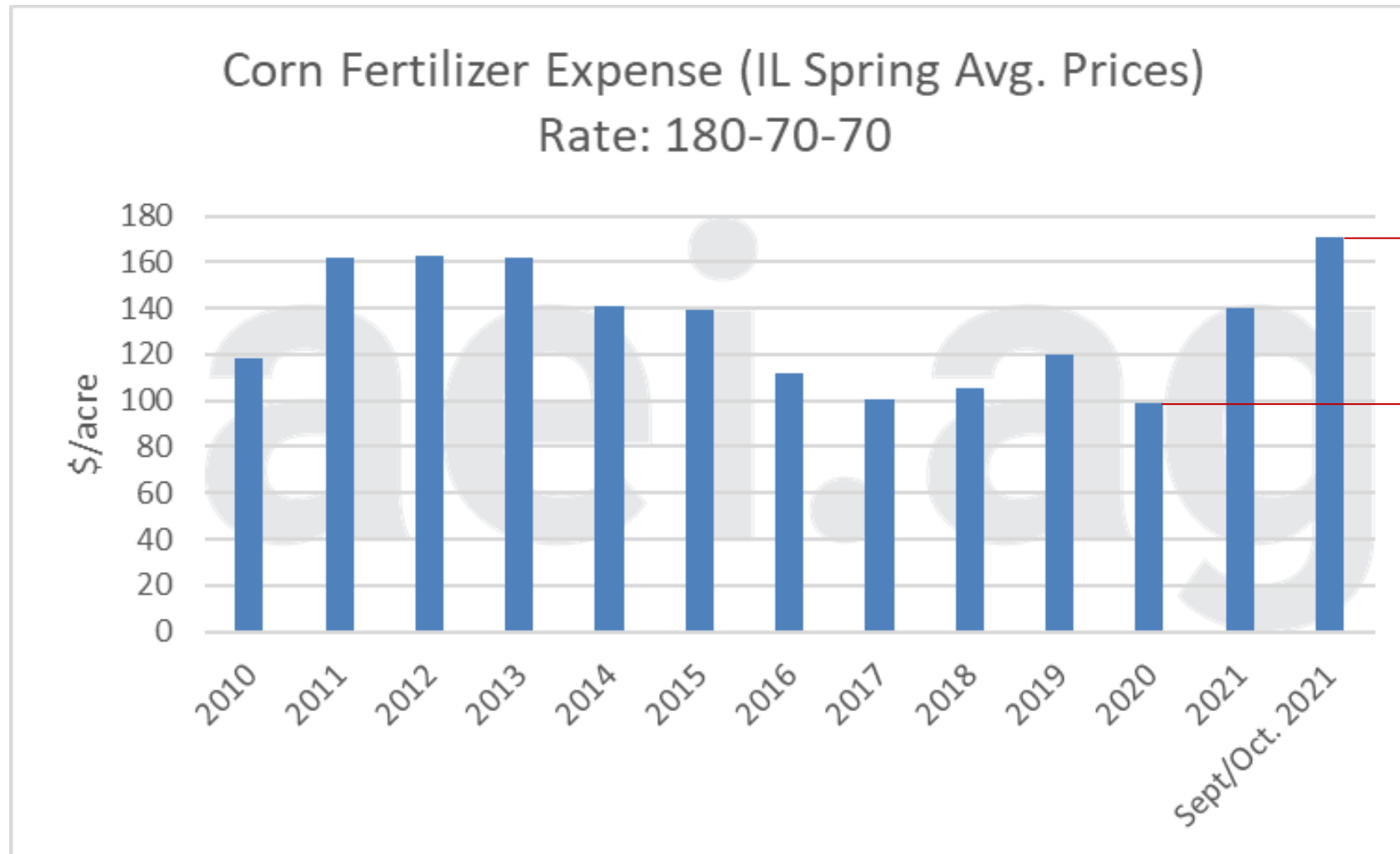
Northern IL Crop Budgets for 2022 (Aug 2021)



Illinois fertilizer cash prices



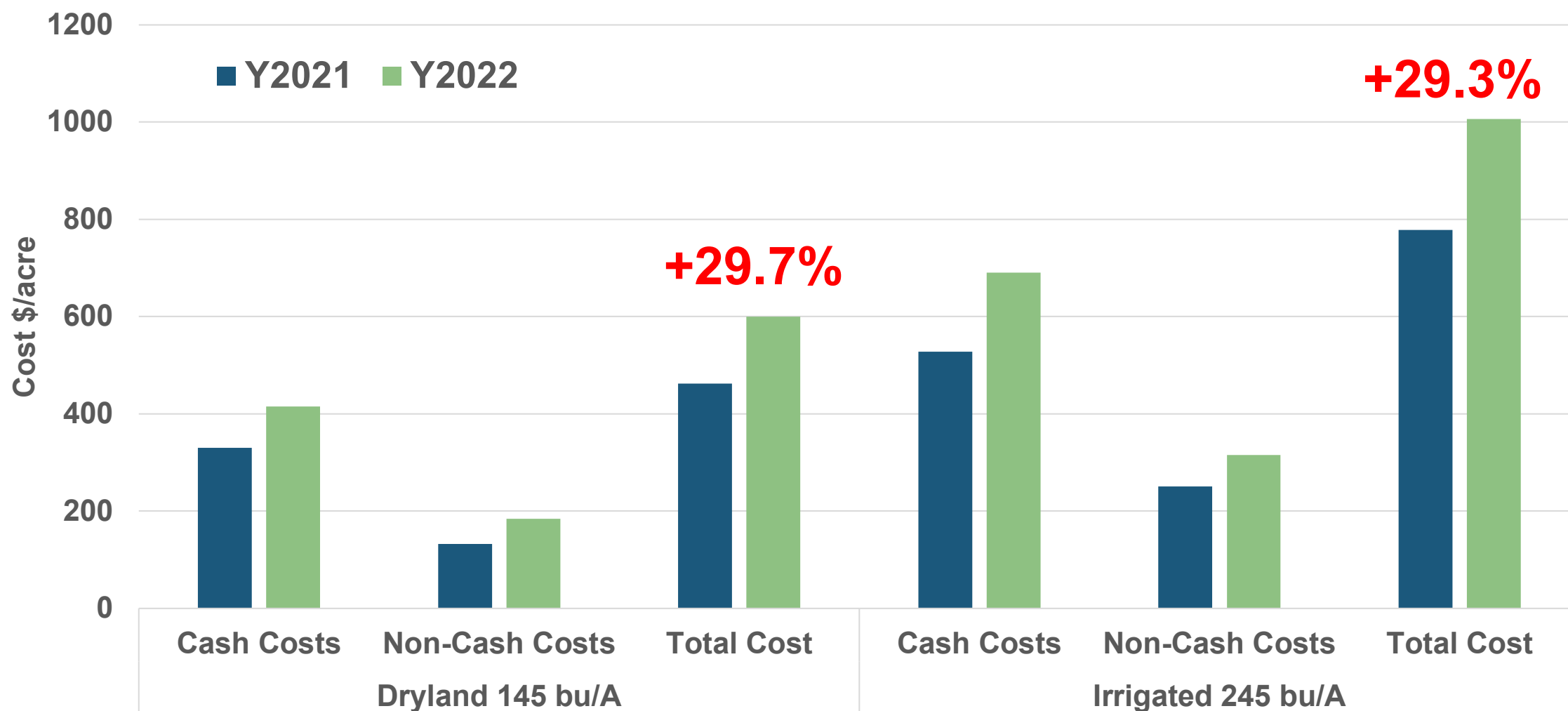
Record Fertilizer Expenses in Illinois for 2022

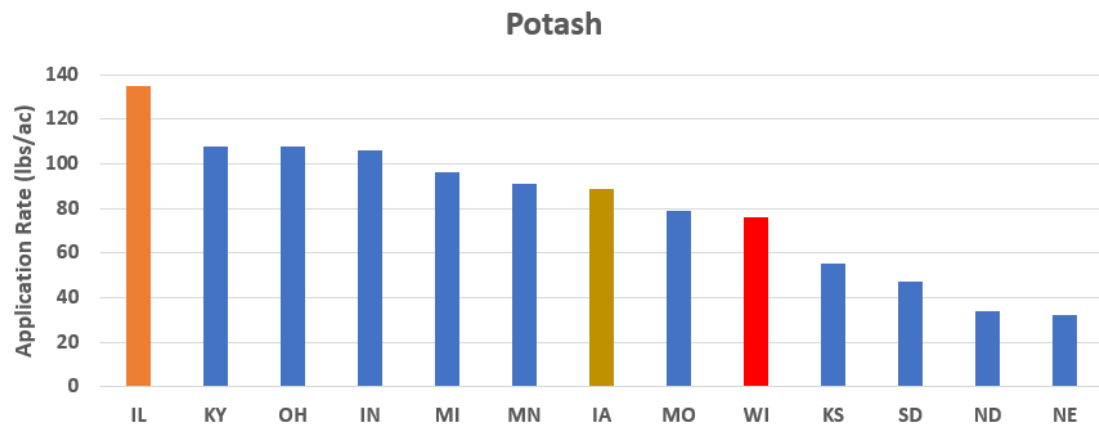
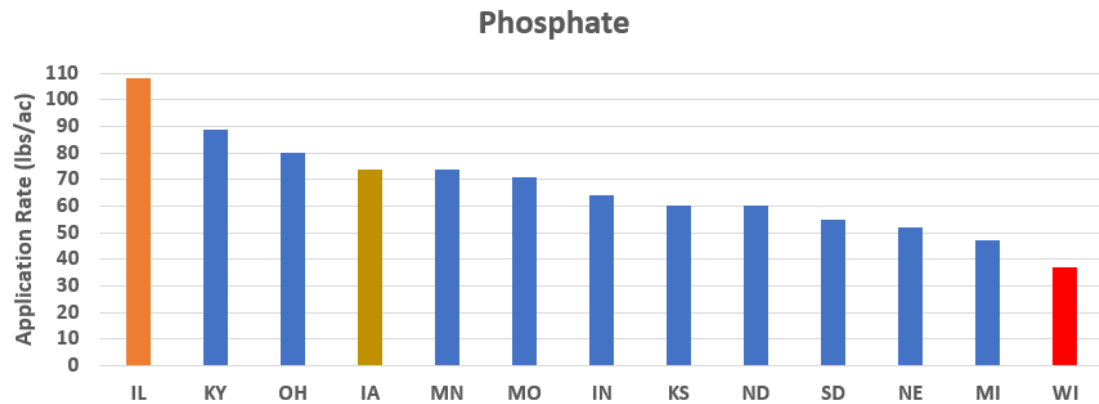
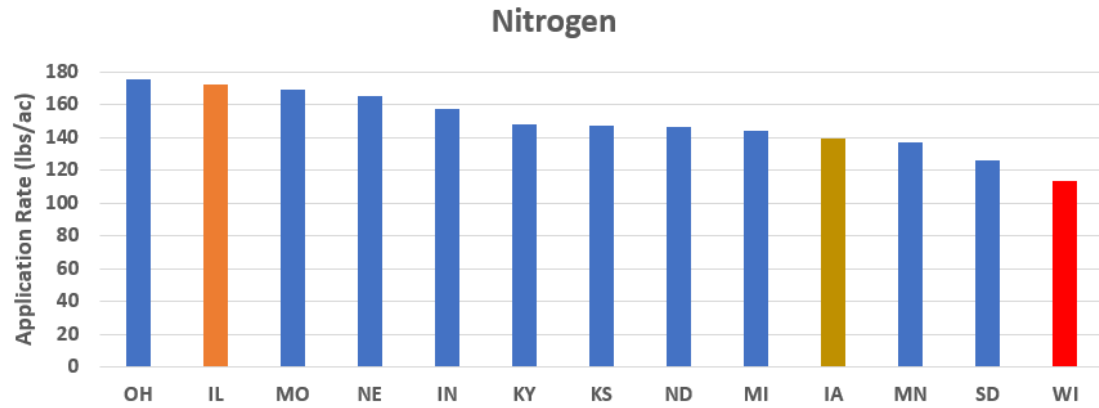


72% cost
increase from
spring 2020

U of NE Corn Budgets (Oct 18, 2021)

(with fertilizer, fuel, pesticide, seed, machinery cost increases)





High fertilizer prices hit Illinois and Iowa farmers harder than in Wisconsin

State average fertilizer application rates for corn in 2018 (USDA NASS)

Source: Dairy Helps Insulate Wisconsin Farmers from Fertilizer Price Spikes (Mitchell, Oct 21 Blog post)

<https://aae.wisc.edu/pdmitchell/2021/10/20/dairy-helps-insulate-wisconsin-farmers-from-fertilizer-price-spikes/>

☆ Producer Price Index by Commodity: All Commodities (PPIACO)

PPI up to Sep 1, 2021

[DOWNLOAD](#)

Observation:
Sep 2021: 235.4 (+ more)
Updated: Oct 14, 2021

Units:
Index 1982=100,
Not Seasonally Adjusted

Frequency:
Monthly

1Y | 5Y | 10Y | Max

2000-01-29

to

2021-09-01

[EDIT GRAPH](#)

FRED

— Producer Price Index by Commodity: All Commodities



Shaded areas indicate U.S. recessions.

Source: U.S. Bureau of Labor Statistics

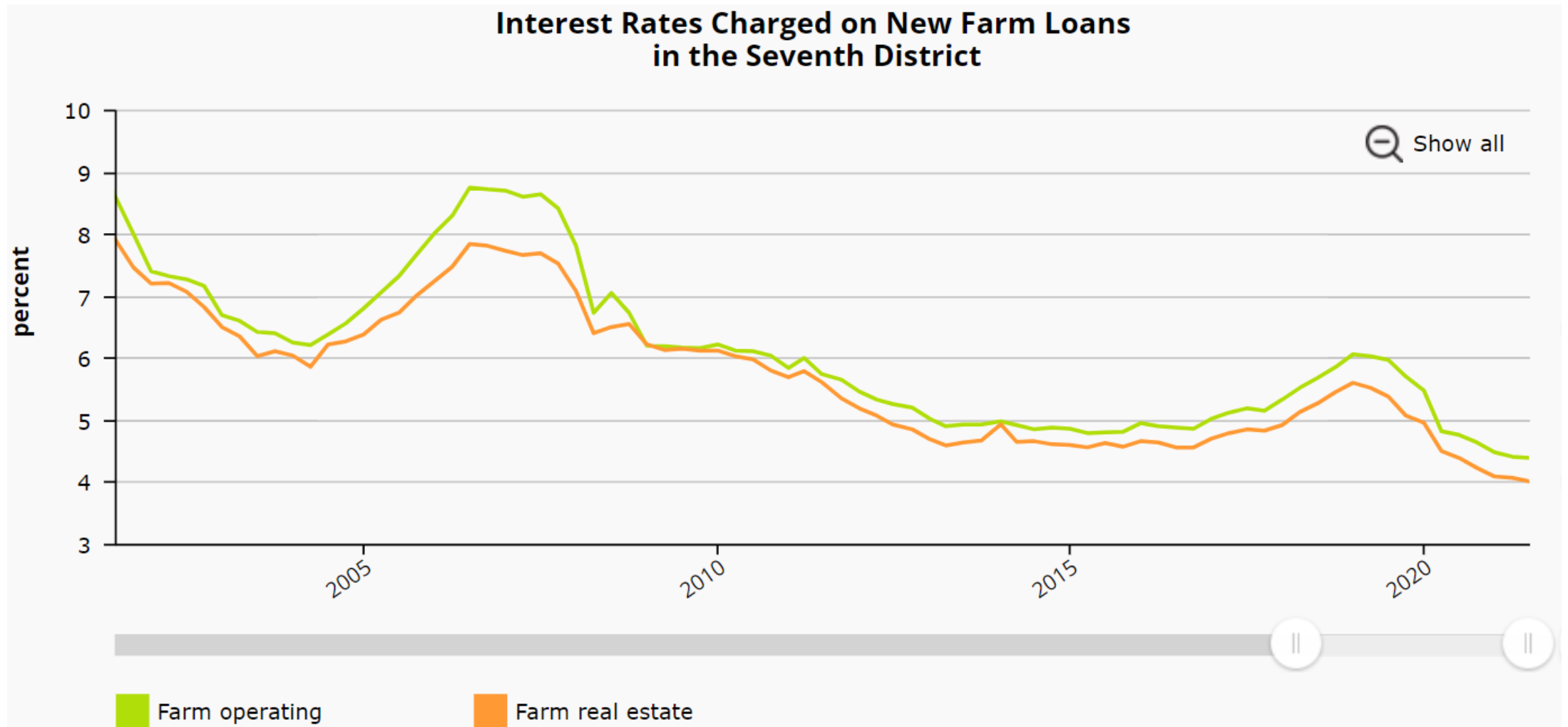
fred.stlouisfed.org

Source: <https://fred.stlouisfed.org/series/PPIACO>

What are farmers doing with all this money?

- Paying off debt
- Paying higher input costs: +20-30% for corn and soybeans
 - Inflation, supply chain disruptions, profit seeking, demand increase
- Buying land

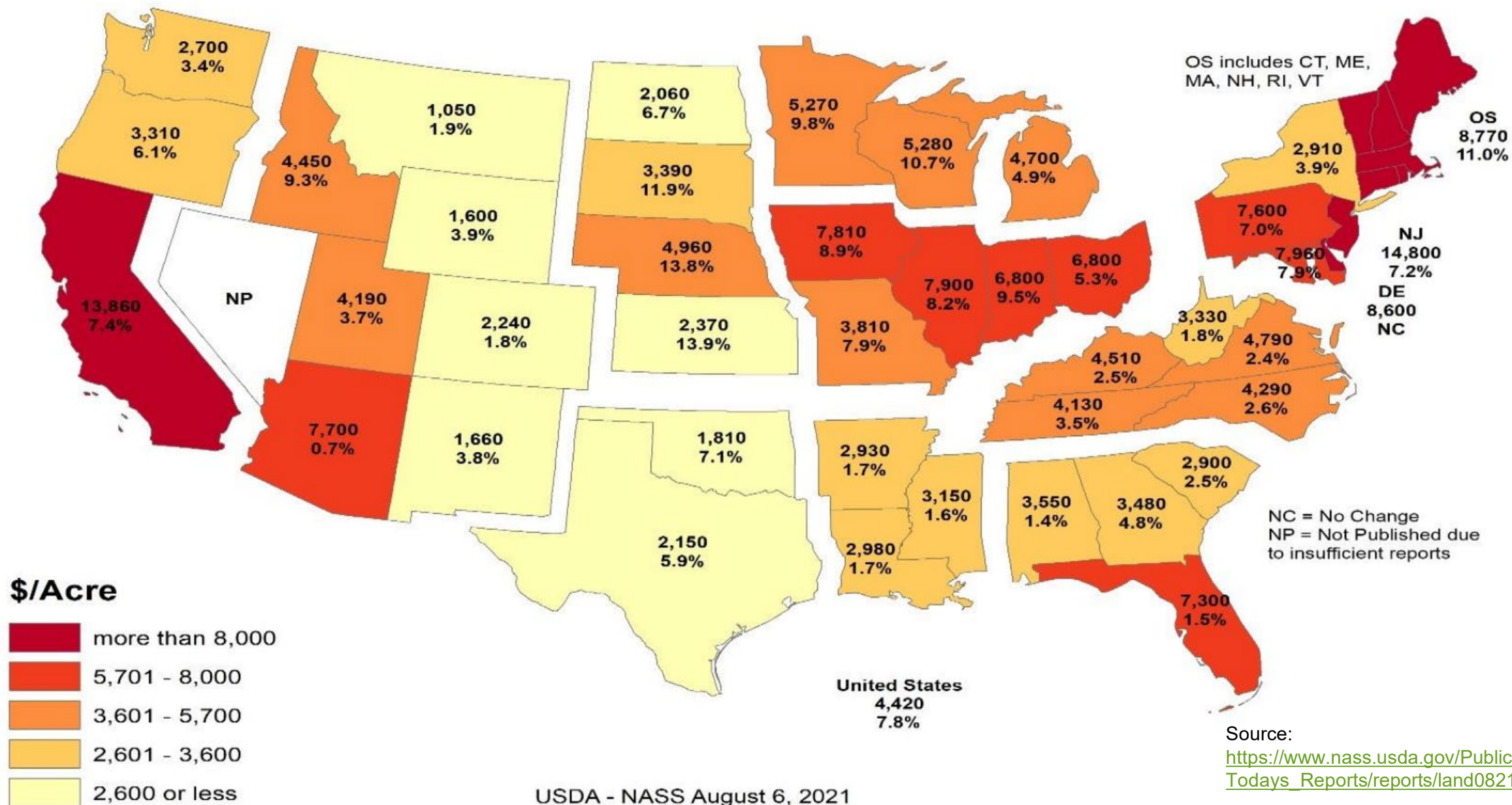
Agricultural Interest Rates at Record Lows



Source: Chicago Fed: <https://www.chicagofed.org/research/data/ag-conditions/index>

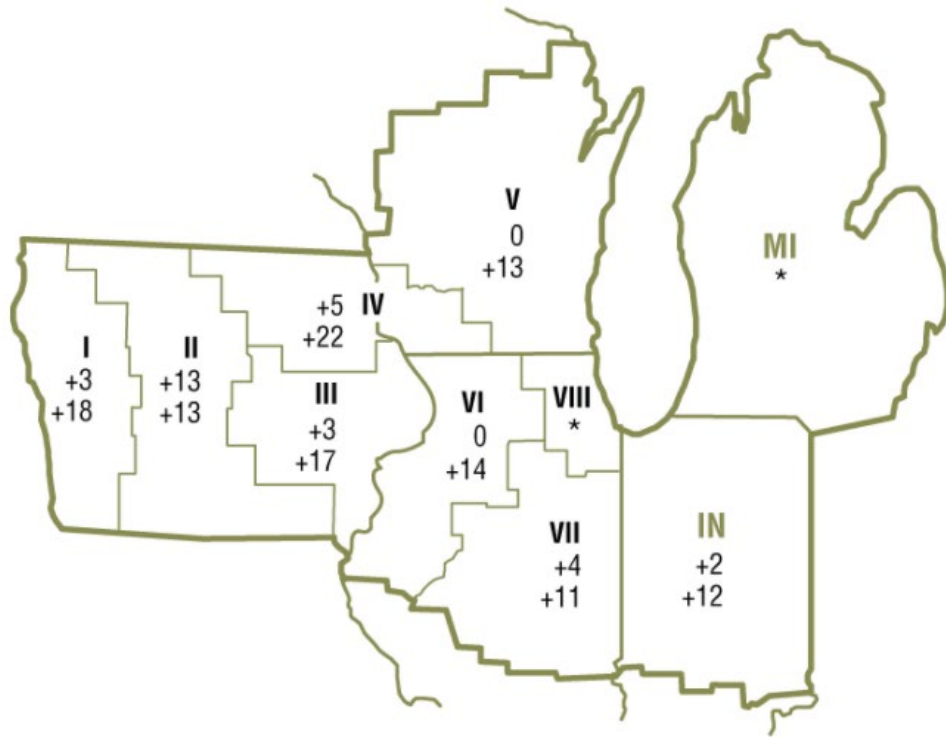
2021 Cropland Value by State

Dollars per Acre and Percent Change from 2020



Chicago Federal Reserve Banker Survey

(Dave Oppendahl: AgLetter: Aug 2021)



Top: April 1, 2021 to July 1, 2021

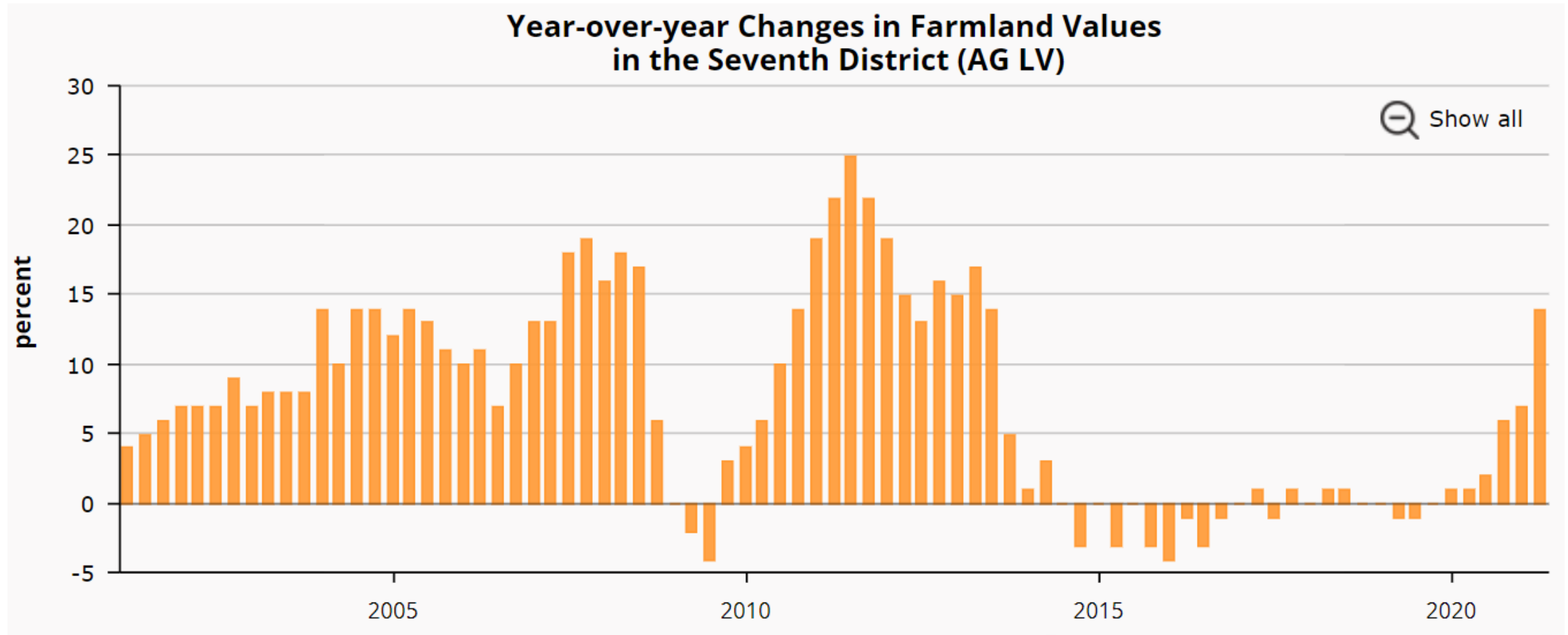
Bottom: July 1, 2020 to July 1, 2021

Percent change in dollar value of "good" farmland

	April 1, 2021 to July 1, 2021	July 1, 2020 to July 1, 2021
Illinois	+3	+12
Indiana	+2	+12
Iowa	+6	+18
Michigan	*	*
Wisconsin	0	+13
Seventh District	+3	+14

Source: <https://www.chicagofed.org/publications/agletter/2020-2024/august-2021>

Historical Context for Land Prices in Seventh District



Source: Chicago Fed: <https://www.chicagofed.org/research/data/ag-conditions/index>

ARC and PLC for 2022

ARC and PLC Signup: Oct 18, 2021 to March 15, 2022

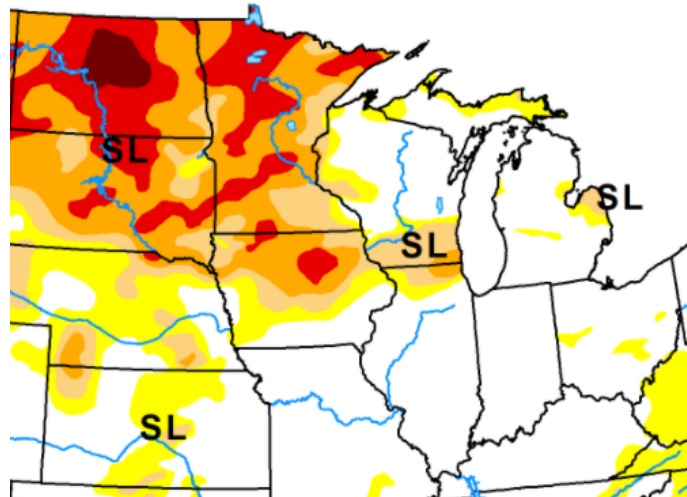
- Farmers choosing PLC, ARC-CO, or ARC-IC for their base acres
- Signup is only for the 2022 crop season
 - Already chose 2019 – 2021, Will choose for 2023 later
- Payments based on marketing year average prices, so Sep 1, 2022 until Aug 31, 2023, with 2022 payments made, if triggered, in Sep/Oct of 2023

ARC and PLC: Reminder of how they work

- PLC: Pays if the national price falls below the Reference Price
- ARC: Pays if actual county revenue falls below county revenue guarantee
 - County Revenue = national PLC price x USDA NASS county average yield
 - County Revenue Guarantee = 86% of Olympic average of county revenue for 2016-2020, with reference price as floor

Initial Recommendations for ARC and PLC Signup for 2022

- Corn, Soybean, Wheat and Oat Base Acres: **Signup for ARC**
- For all four crops, high price expectations for 2022 exceed PLC reference prices by a lot
- Market/price uncertainty obviously exists, but low county yields are more likely to trigger ARC payments than low national prices are to trigger PLC payments



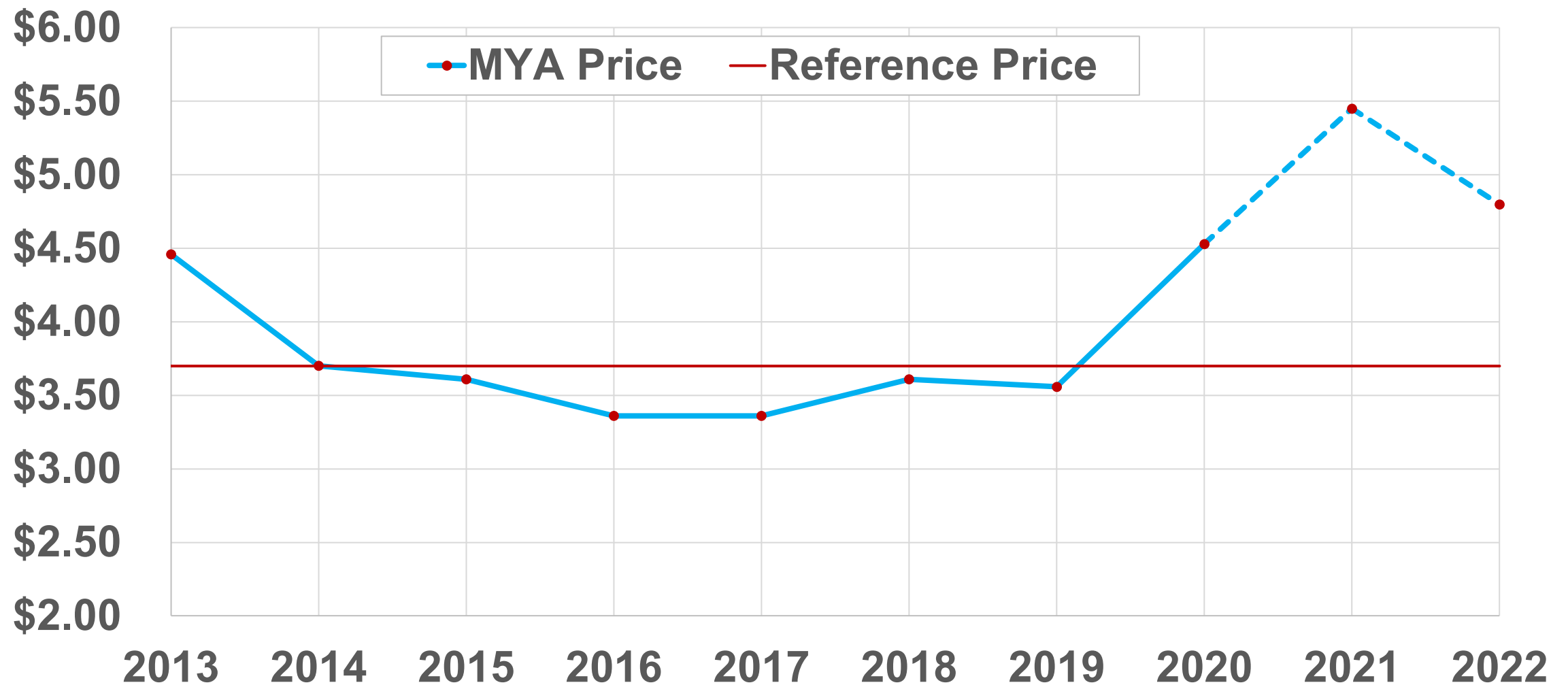
U.S. Drought Monitor
Aug 3, 2021

Reference Prices and USDA Farm Price Projections

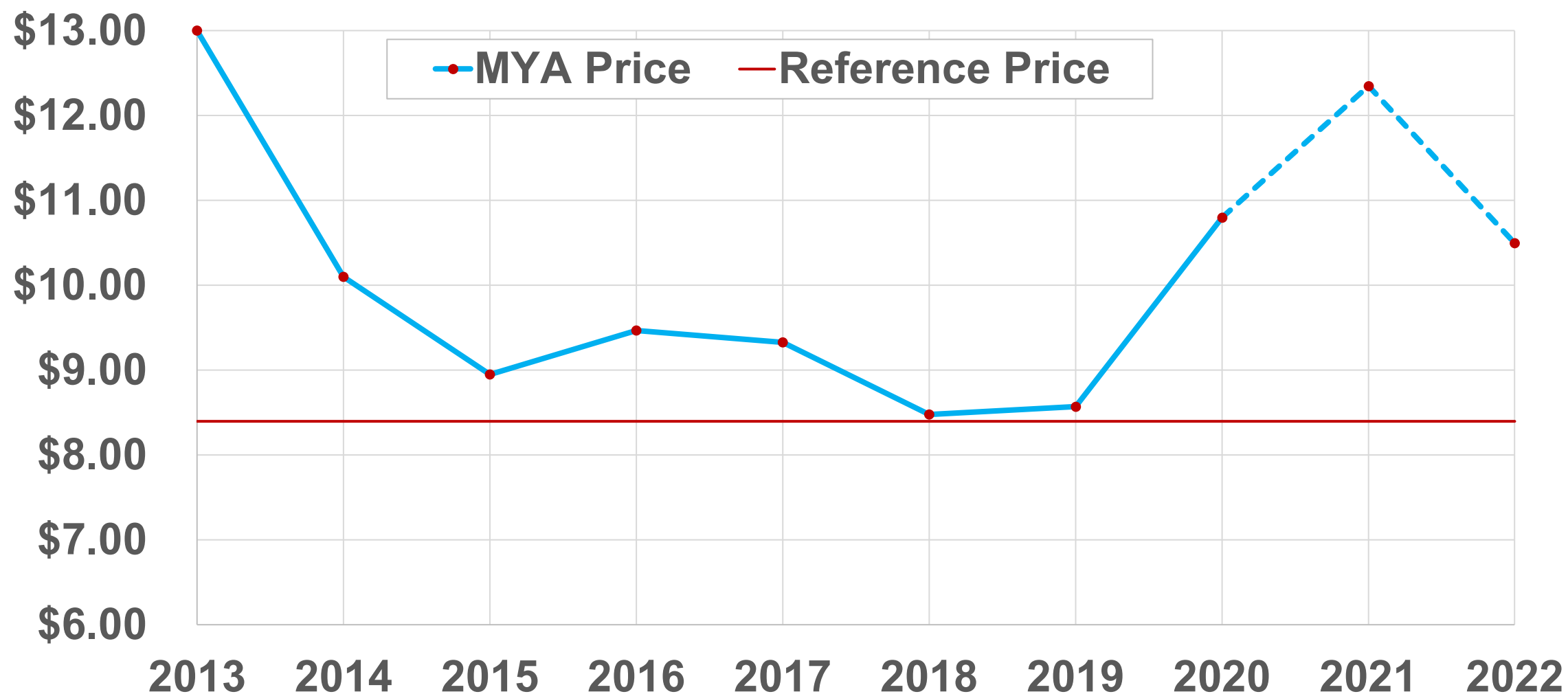
Crop	Reference Price	Projected 2021 Price	Projected 2022 Price
Corn	\$3.70	\$5.45	\$4.80
Soybeans	\$8.40	\$12.35	\$10.50
Wheat	\$5.50	\$6.70	\$6.50
Oats	\$2.40	\$3.60	\$3.30

- Projected 2021 Price: USDA-FSA (Oct 29, 2021)
https://www.fsa.usda.gov/Assets/USDA-FSA-Public/usdafiles/arc-plc/2021/pdf/2021_my_a.pdf
- Projected 2022 Price: USDA Agricultural Projections (Nov 5, 2021)
<https://usda.library.cornell.edu/concern/publications/qn59q396v>

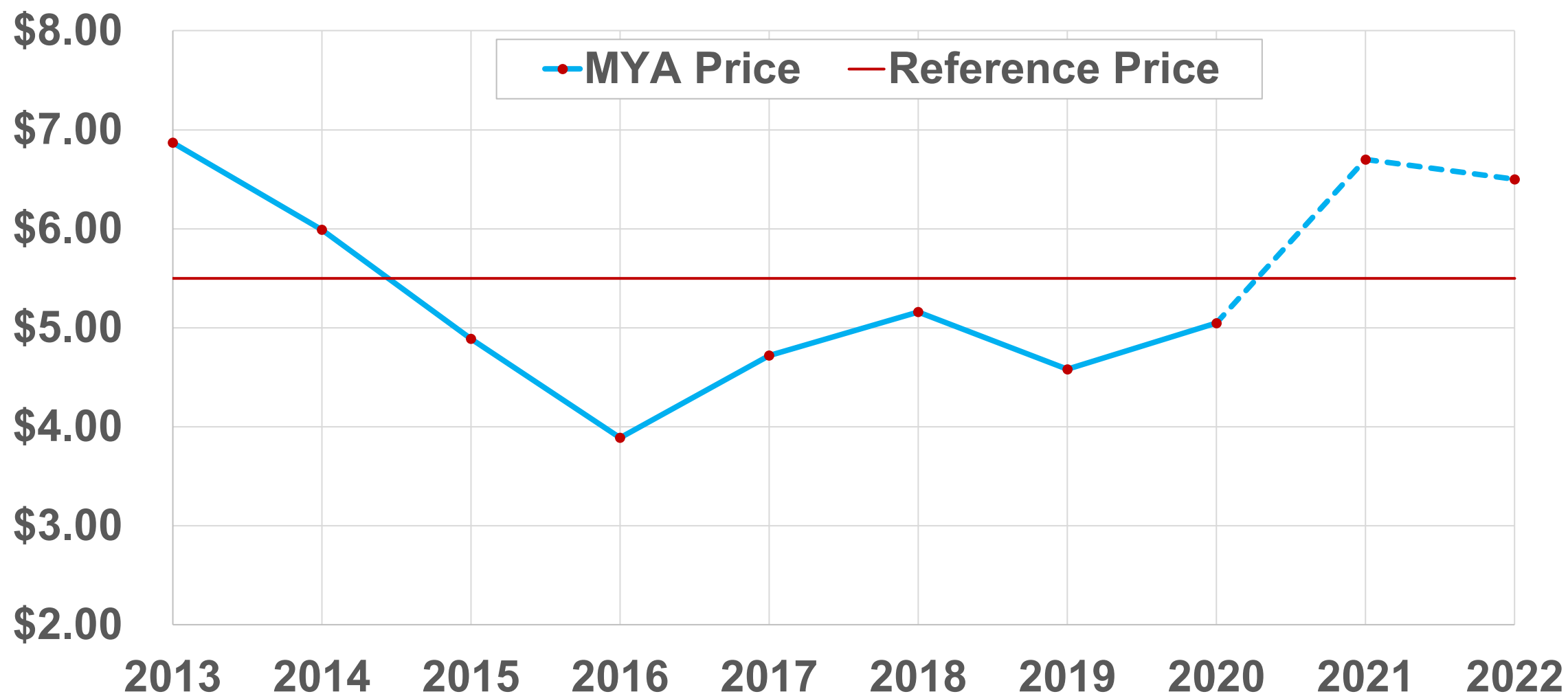
Corn Prices and its Reference Price



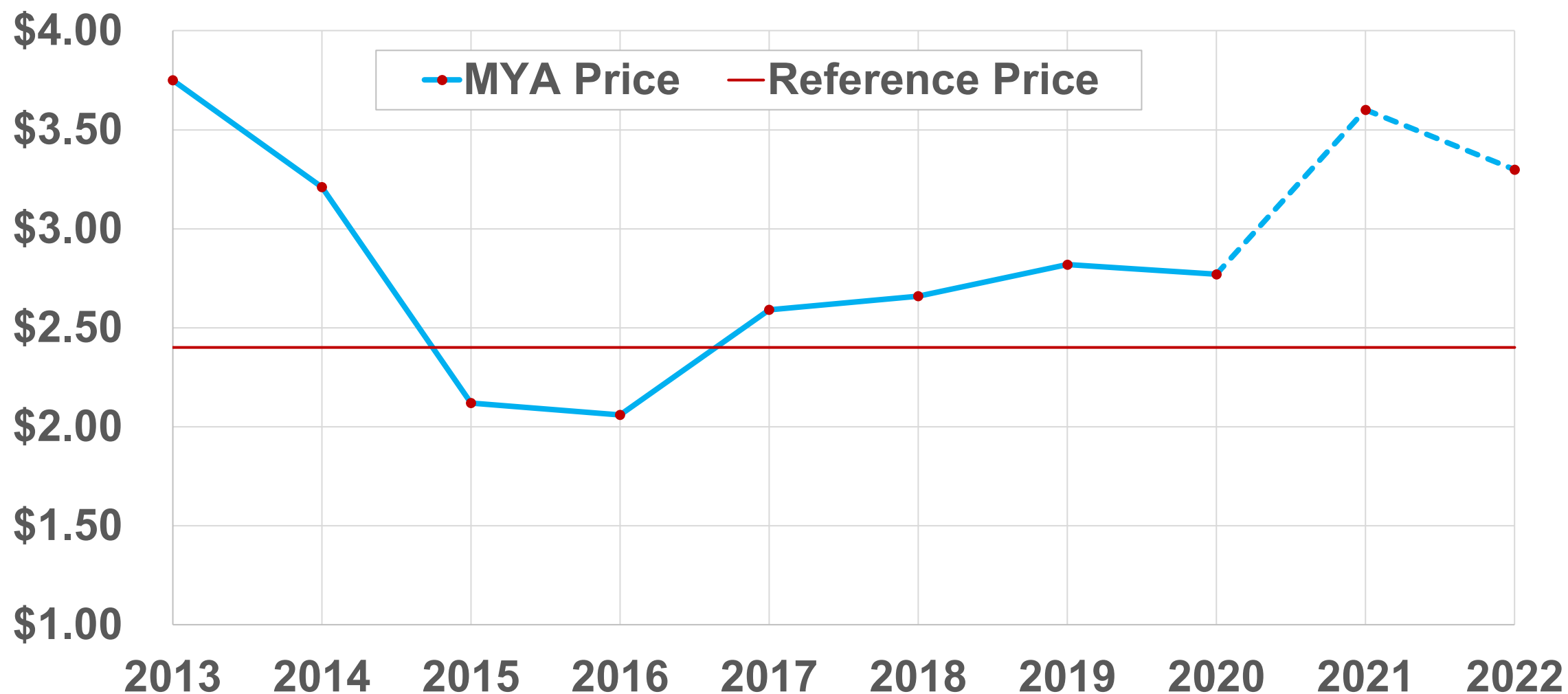
Soybean Prices and its Reference Price



Wheat Prices and its Reference Price

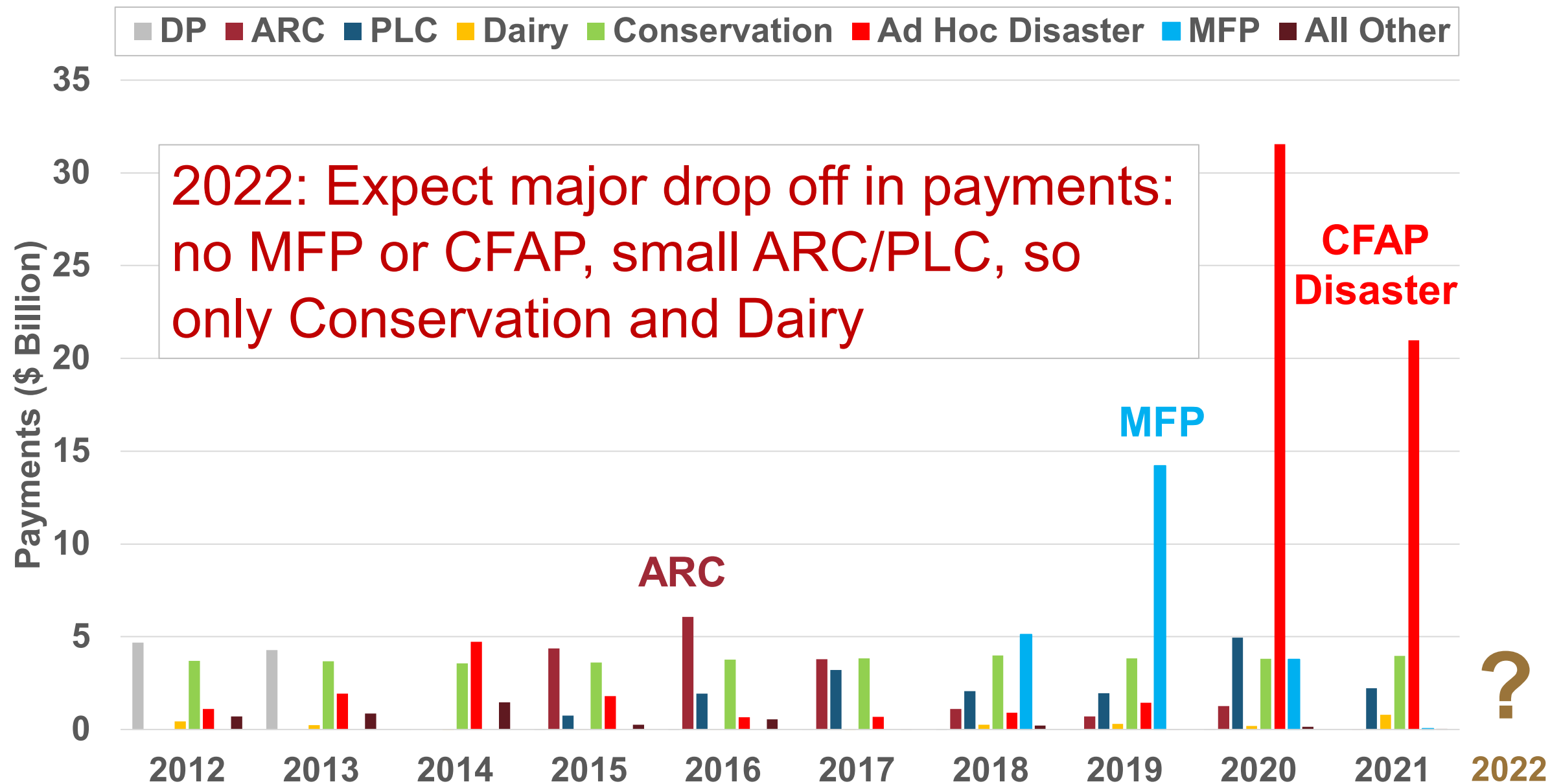


Oat Prices and its Reference Price



Summary of Recommendations for 2022

- **Choose ARC**
- ARC is more likely to make payments due to the possibility of low county yields not offset by higher national prices
- Neither ARC nor PLC are likely to pay much if they do pay
 - Do not expect much in terms of ARC or PLC payments
- Sign up now. You can make changes before Mar 15, 2022 deadline
 - FSA would prefer to spread out their workload



FIVE WAYS THE INFRASTRUCTURE BILL COULD IMPACT U.S. AGRICULTURE



October 5, 2021

<https://agamerica.com/blog/rural-infrastructure-package/>

1. Improve the Ag Transportation Network

- \$110 B roads/bridges, \$66 B railroads, \$17 B ports/waterways

2. Increase Environmental Resilience

- \$21 B cleanup abandoned wells & mines (\$135 B carbon capture in USDA budget request)

3. Enhance Existing Water Infrastructure

- \$63 B national water infrastructure (irrigation support)

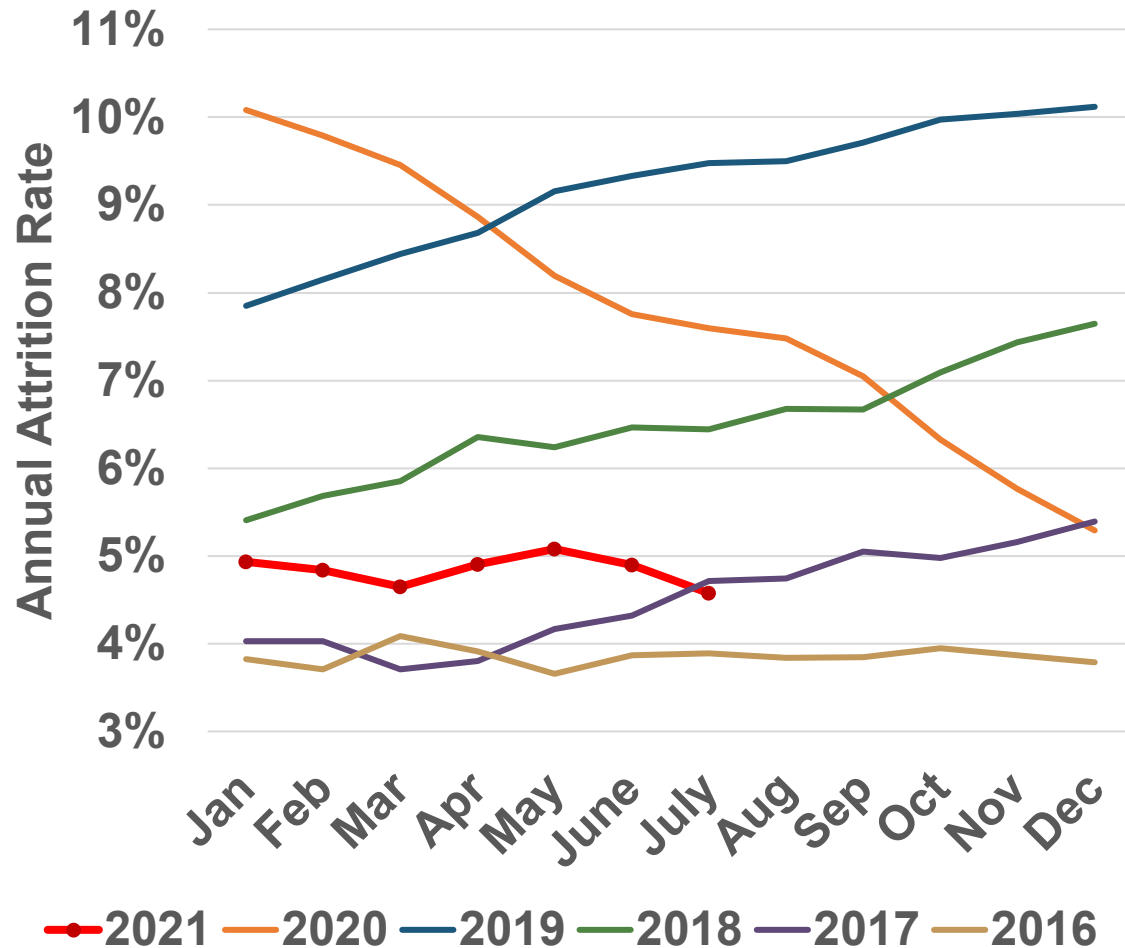
4. Bridge the Digital Divide

- \$65 B expand broadband, \$47 B cybersecurity (Different law for rural broadband)

5. Create Job Opportunities in Rural America

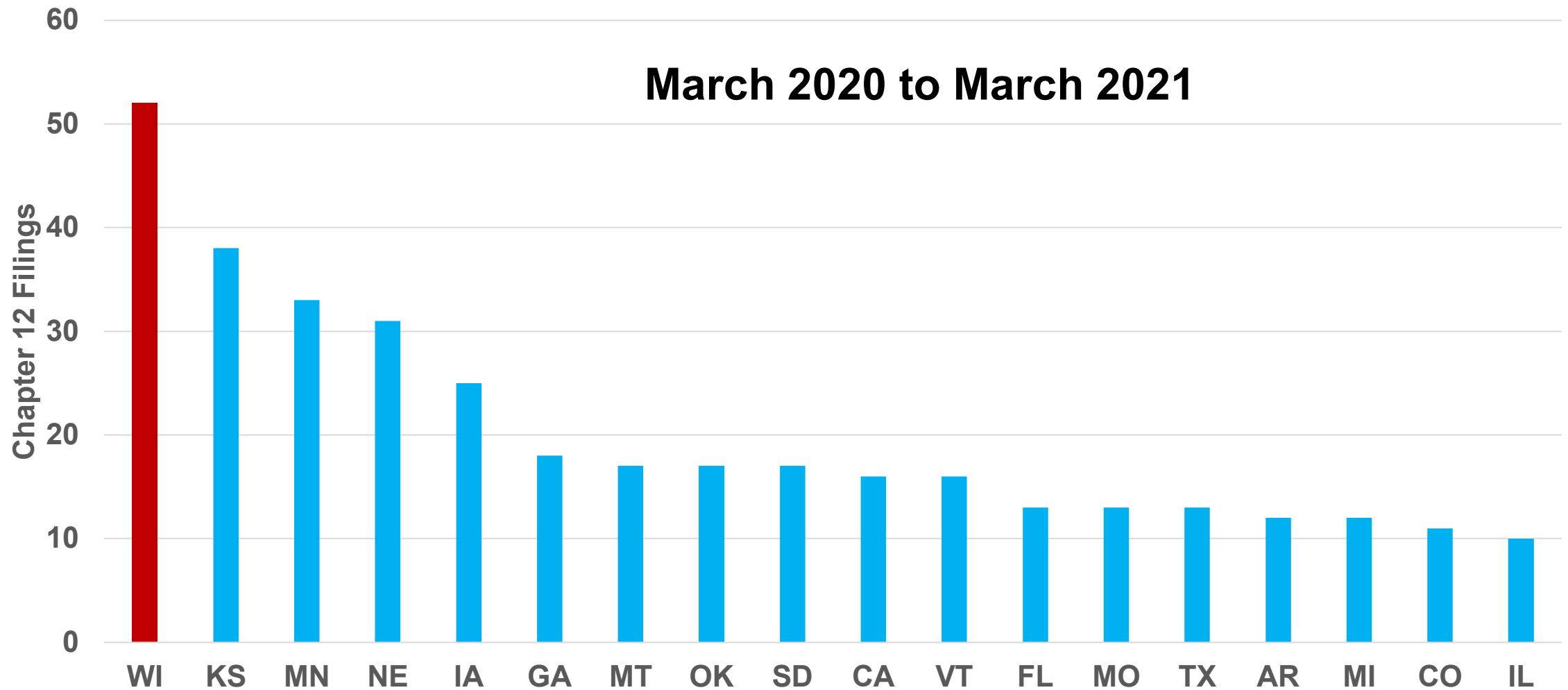
- +650,000 jobs
- Cost: CBO says +\$256 B over 10 years (or \$25.6 B per year) to deficit

Dairy Industry Continues to Struggle



- Dairy has been struggling with low prices and higher feed costs
- Expected prices are up due to decreasing cow numbers and export increases
- On the positive side: Wisconsin dairy farm loss rate has almost returned to “normal”

Wisconsin Still Leads the Nation in Farm Bankruptcy



Summary

- Unprecedented government payments via MFP and CFAP
- Farm sector full of cash, farm income for 2021 up 19%
- Farmers are paying off debt & spending more on higher input costs
- 2022: With current price expectations, enroll in ARC, but do not expect much for ARC (or PLC) payments
 - You can change your mind up to March 15, 2022
- Expect major drop off in government payments in 2022
 - No MFP or CFAP, small ARC/PLC payments
 - Only Conservation and Dairy program payments

Questions? Comments?



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